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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number 000-51371

LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

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

57-1150621
(IRS Employer Identification No.)

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

07052
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 6, 2015, there were 24,076,823 shares of the registrant's common stock outstanding.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

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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)

| | March 31, 2015 | December 31, 2014 |
|---|---------------------------------|------------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 5,180 | \$ 12,299 |
| Restricted cash | - | 30,000 |
| Accounts receivable, less allowance of \$11,684 and \$12,193 at March 31, 2015 and December 31, 2014, respectively | 15,725 | 13,533 |
| Inventories | 1,593 | 1,486 |
| Prepaid income taxes and income taxes receivable | 827 | 879 |
| Assets held for sale | 51,696 | 50,930 |
| Prepaid expenses and other current assets | 4,386 | 3,937 |
| Total current assets | <u>79,407</u> | <u>113,064</u> |
| PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of \$156,967 and \$136,910 at March 31, 2015 and December 31, 2014, respectively | <u>66,806</u> | <u>69,740</u> |
| OTHER ASSETS: | | |
| Noncurrent receivables, less allowance of \$987 and \$1,016 at March 31, 2015 and December 31, 2014, respectively | 5,857 | 6,235 |
| Deferred finance charges | 140 | 158 |
| Goodwill | 22,207 | 22,207 |
| Other assets, net | 2,479 | 2,303 |
| Total other assets | <u>30,683</u> | <u>30,903</u> |
| TOTAL | <u>\$ 176,896</u> | <u>\$ 213,707</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | <u>March 31,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|---------------------------------|------------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of credit agreement | \$ - | \$ 30,000 |
| Current portion of capital lease obligations | 480 | 471 |
| Unearned tuition | 26,779 | 26,469 |
| Accounts payable | 11,538 | 11,894 |
| Accrued expenses | 13,849 | 13,865 |
| Other short-term liabilities | 675 | 780 |
| Total current liabilities | <u>53,321</u> | <u>83,479</u> |
| NONCURRENT LIABILITIES: | | |
| Long-term capital lease obligations | 24,914 | 25,038 |
| Long-term finance obligation | 9,672 | 9,672 |
| Pension plan liabilities | 5,130 | 5,299 |
| Accrued rent | 6,822 | 6,852 |
| Other long-term liabilities | 368 | 357 |
| Total liabilities | <u>100,227</u> | <u>130,697</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2015 and December 31, 2014 | - | - |
| Common stock, no par value - authorized: 100,000,000 shares at March 31, 2015 and December 31, 2014; issued and outstanding: 29,755,446 shares at March 31, 2015 and 29,933,086 shares at December 31, 2014 | 141,377 | 141,377 |
| Additional paid-in capital | 26,661 | 26,350 |
| Treasury stock at cost - 5,910,541 shares at March 31, 2015 and December 31, 2014 | (82,860) | (82,860) |
| (Accumulated deficit) retained earnings | (1,273) | 5,610 |
| Accumulated other comprehensive loss | (7,236) | (7,467) |
| Total stockholders' equity | <u>76,669</u> | <u>83,010</u> |
| TOTAL | <u>\$ 176,896</u> | <u>\$ 213,707</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2015 | 2014 |
| REVENUE | \$ 76,720 | \$ 79,202 |
| COSTS AND EXPENSES: | | |
| Educational services and facilities | 38,196 | 41,751 |
| Selling, general and administrative | 44,009 | 46,118 |
| Gain on sale of assets | (47) | (55) |
| Total costs & expenses | 82,158 | 87,814 |
| OPERATING LOSS | (5,438) | (8,612) |
| OTHER: | | |
| Interest income | 9 | 56 |
| Interest expense | (1,627) | (1,316) |
| Other income | 223 | - |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (6,833) | (9,872) |
| PROVISION FOR INCOME TAXES | 50 | 419 |
| LOSS FROM CONTINUING OPERATIONS | (6,883) | (10,291) |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES | - | (803) |
| NET LOSS | \$ (6,883) | \$ (11,094) |
| Basic | | |
| Loss per share from continuing operations | \$ (0.30) | \$ (0.45) |
| Loss per share from discontinued operations | - | (0.04) |
| Net loss per share | \$ (0.30) | \$ (0.49) |
| Diluted | | |
| Loss per share from continuing operations | \$ (0.30) | \$ (0.45) |
| Loss per share from discontinued operations | - | (0.04) |
| Net loss per share | \$ (0.30) | \$ (0.49) |
| Weighted average number of common shares outstanding: | | |
| Basic | 23,056 | 22,723 |
| Diluted | 23,056 | 22,723 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---------------------------|--------------------|
| | March 31, | |
| | 2015 | 2014 |
| Net loss | \$ (6,883) | \$ (11,094) |
| Other comprehensive income | | |
| Employee pension plan adjustments, net of taxes | 231 | 112 |
| Comprehensive loss | <u>\$ (6,652)</u> | <u>\$ (10,982)</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | Common Stock | | Additional | Treasury | Retained | Accumulated | |
|--|---------------------|-------------------|-------------------|--------------------|---------------------|----------------------|------------------|
| | Shares | Amount | Paid-in | Stock | Earnings | Other | Total |
| | | | Capital | | (Accumulated | Comprehensive | |
| | | | | | Deficit) | Loss | |
| BALANCE - January 1, 2015 | 29,933,086 | \$ 141,377 | \$ 26,350 | \$ (82,860) | \$ 5,610 | \$ (7,467) | \$ 83,010 |
| Net loss | - | - | - | - | (6,883) | - | (6,883) |
| Employee pension plan adjustments, net of taxes | - | - | - | - | - | 231 | 231 |
| Stock-based compensation expense | | | | | | | |
| Restricted stock | (168,432) | - | 299 | - | - | - | 299 |
| Stock options | - | - | 33 | - | - | - | 33 |
| Net share settlement for equity- based compensation | (9,208) | - | (21) | - | - | - | (21) |
| BALANCE - March 31, 2015 | <u>29,755,446</u> | <u>\$ 141,377</u> | <u>\$ 26,661</u> | <u>\$ (82,860)</u> | <u>\$ (1,273)</u> | <u>\$ (7,236)</u> | <u>\$ 76,669</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---------------------------|----------------|
| | March 31, | |
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (6,883) | \$ (11,094) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 3,667 | 5,064 |
| Amortization of deferred finance charges | 204 | 210 |
| Deferred income taxes | - | 381 |
| Gain on disposition of assets | (47) | (55) |
| Fixed asset donation | (9) | (39) |
| Provision for doubtful accounts | 3,278 | 3,118 |
| Stock-based compensation expense | 332 | 997 |
| Deferred rent | (187) | (137) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (5,861) | (4,291) |
| Inventories | (168) | 149 |
| Prepaid income taxes and income taxes receivable | 52 | 482 |
| Prepaid expenses and current assets | (464) | (264) |
| Other assets and charges | (418) | 95 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (302) | (5,082) |
| Accrued expenses | (50) | 1,213 |
| Pension plan liabilities | - | 112 |
| Unearned tuition | 583 | 813 |
| Other liabilities | (32) | (52) |
| Total adjustments | 578 | 2,714 |
| Net cash used in operating activities | (6,305) | (8,380) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (759) | (637) |
| Proceeds from sale of property and equipment | 80 | 61 |
| Net cash used in investing activities | (679) | (576) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on borrowings | (32,500) | (54,500) |
| Reclassifications of payments of borrowings from restricted cash | 30,000 | 54,500 |
| Proceeds from borrowings | 2,500 | 5,000 |
| Net share settlement for equity-based compensation | (21) | (65) |
| Dividends paid | - | (1,672) |
| Principal payments under capital lease obligations | (114) | (107) |
| Net cash (used in) provided by financing activities | (135) | 3,156 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (7,119) | (5,800) |
| CASH AND CASH EQUIVALENTS—Beginning of period | 12,299 | 12,886 |
| CASH AND CASH EQUIVALENTS—End of period | \$ 5,180 | \$ 7,086 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2015 | 2014 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | \$ 1,483 | \$ 1,083 |
| Income taxes | \$ - | \$ 1 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Liabilities accrued for or noncash purchases of fixed assets | \$ 48 | \$ 855 |

See notes to unaudited condensed consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(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”) is a provider of diversified career-oriented post-secondary education. The Company reorganized its operations in the first quarter of 2015 into three reportable segments: a) Transportation and Skilled Trades, b) Healthcare and Other Professions, and c) Transitional. The Company offers recent high school graduates and working adults career-oriented programs in these segments. The Company currently has 31 campuses in 15 states across the United States.

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 hindered potential students from enrolling in its post-secondary schools. In light of these factors, the Company has incurred significant operating losses as a result of lower student population. The Company also recorded a pre-tax goodwill impairment charge of \$39.0 million for the year ended December 31, 2014 as a result of a significant decline in market capitalization. Despite these events, the Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months. The Company’s available sources of cash primarily include cash from operations, cash and cash equivalents on hand of \$5.2 million at March 31, 2015 and the ability to draw up to \$20 million (less letters of credit) under its revolving line of credit that was extended through April 5, 2016. To fund the Company’s business plans, including any anticipated future losses, purchase commitments, capital expenditures, principal and interest payments on borrowings and to satisfy the Department of Education (the “DOE”) financial responsibility standards, the Company has the ability to leverage its owned real estate that is not classified as held for sale. The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population.

In addition to the current sources of capital discussed above that will provide short term liquidity, the Company plans to sell approximately \$51.7 million in assets which are currently classified as held for sale and are expected to be sold within one year from the date of classification. The Company also is currently exploring various other alternatives including debt financing vehicles and strategic partnerships. However, at this time the Company has no commitments to obtain any additional funds, and there can be no assurance such funds will be available on acceptable terms or at all.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 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, 2014 consolidated financial statements and related disclosures of the Company included in the Annual Report on Form 10-K filed with the SEC on March 16, 2015, reflect all adjustments, consisting of normal recurring adjustments and impairments necessary to present fairly the consolidated financial position, results of operations and cash flows for such periods. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015.

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

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

New Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard related to revenue recognition, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most of the existing revenue recognition standards in GAAP when it becomes effective on January 1, 2017. Early adoption is not permitted. The new standard can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application. The Company is assessing the potential impact of the new standard on financial reporting and has not yet selected a transition method.

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In April 2014, FASB issued amended guidance on the use and presentation of discontinued operations in an entity's consolidated financial statements. The new guidance restricts the presentation of discontinued operations to business circumstances when the disposal of business operations represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance became effective on January 1, 2015. Adoption is on a prospective basis. The Company adopted the new guidance as of December 31, 2014 and based on the guidance did not present the schools that are held for sale as discontinued operations in the consolidated financial statements. As discussed in Note 4, the Company did include the five training sites from Florida in discontinued operations in the consolidated financial statements for the year ended December 31, 2014 as they qualify under the amended guidance.

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

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

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

Income Taxes – The Company accounts for income taxes in accordance with FASB Accounting Standards Code (“ASC”) Topic 740, “Income Taxes” (“ASC 740”). This statement requires an asset and 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 its 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, the Company’s 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 the Company’s 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 the Company’s income tax provision to vary significantly among financial reporting periods.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three months ended March 31, 2015 and 2014, the Company did not have 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 March 31, 2015 and 2014 was as follows:

| | Three Months Ended | |
|----------------------------------|--------------------|------------|
| | March 31, | |
| | 2015 | 2014 |
| Basic shares outstanding | 23,055,803 | 22,722,721 |
| Dilutive effect of stock options | - | - |
| Diluted shares outstanding | 23,055,803 | 22,722,721 |

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For the three months ended March 31, 2015 and 2014, options to acquire 96,968 and 177,392 shares, respectively, were excluded from the above table because the Company reported a net loss for each quarter and therefore their impact on reported loss per share would have been antidilutive. For the three months ended March 31, 2015 and 2014, options to acquire 758,338 and 587,543 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.

In 2011, 2013 and 2014, the Company issued performance shares that vest when certain performance conditions are satisfied. As of March 31, 2015, these performance conditions were not met. As a result, the Company has determined these shares to be contingently issuable. Accordingly, 226,106 shares of outstanding performance shares have been excluded from the computation of diluted earnings per share for the three months ended March 31, 2015, and 386,063 shares have been excluded for the three months ended March 31, 2014. Refer to Note 6 for more information on performance shares.

3. DISCONTINUED OPERATIONS

On December 3, 2014, the Company's Board of Directors approved a plan to cease operations at five training sites in Florida. The Company performed a cost benefit analysis on several schools and concluded that the training sites contained a high fixed cost component and had difficulty attracting enough students due to high competition to maintain a stable profit margin. Accordingly, the Company ceased operations at these campuses as of December 31, 2014. This was a strategic shift to close all of the Company's training sites and all locations that do not accept Title IV payments. The results of operations of these campuses are reflected as discontinued operations in the condensed consolidated financial statements.

The results of operations at these five training sites for the three months ended March 31, 2014 was as follows (in thousands):

| | Three Months Ended March 31, 2014 | |
|--------------------|--|-------|
| Revenue | \$ | 765 |
| Operating expenses | | 1,556 |
| Operating loss | \$ | (791) |

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 was no long-lived asset impairment during the three months ended March 31, 2015 and 2014.

The Company reviews goodwill and intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill and intangible assets with indefinite lives for impairment, with any resulting impairment reflected as an operating expense. The Company concluded that as of March 31, 2015 and 2014 there was no indicator of potential impairment and, accordingly, the Company did not test goodwill for impairment.

The carrying amount of goodwill at March 31, 2015 is as follows:

| | Gross Goodwill Balance | Accumulated Impairment Losses | Net Goodwill Balance |
|-------------------------------|------------------------------|-------------------------------------|----------------------------|
| Balance as of January 1, 2015 | \$ 115,872 | \$ (93,665) | \$ 22,207 |
| Adjustments | - | - | - |
| Balance as of March 31, 2015 | \$ 115,872 | \$ (93,665) | \$ 22,207 |

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Intangible assets, which are included in other assets in the accompanying condensed consolidated balance sheets, consist of the following:

| | <u>Trade Name</u> | <u>Accreditation</u> | <u>Curriculum</u> | <u>Total</u> |
|---|-----------------------|----------------------|-------------------|-----------------|
| Gross carrying amount at December 31, 2014 | \$ 310 | \$ 1,063 | \$ 550 | \$ 1,923 |
| Adjustments | - | - | - | - |
| Gross carrying amount at March 31, 2015 | <u>310</u> | <u>1,063</u> | <u>550</u> | <u>1,923</u> |
| Accumulated amortization at December 31, 2014 | 264 | - | 469 | 733 |
| Amortization | 11 | - | 6 | 17 |
| Accumulated amortization at March 31, 2015 | <u>275</u> | <u>-</u> | <u>475</u> | <u>750</u> |
| Net carrying amount at March 31, 2015 | <u>\$ 35</u> | <u>\$ 1,063</u> | <u>\$ 75</u> | <u>\$ 1,173</u> |
| Weighted average amortization period (years) | 7 | Indefinite | 10 | |

Amortization of intangible assets was less than \$0.1 million for each of the three months ended March 31, 2015 and 2014.

The following table summarizes the estimated future amortization expense:

Year Ending December 31,

| | |
|-------------------|---------------|
| Remainder of 2015 | \$ 48 |
| 2016 | 21 |
| 2017 | 20 |
| 2018 | 20 |
| 2019 | 1 |
| Thereafter | - |
| | <u>\$ 110</u> |

5. LONG-TERM DEBT AND LEASE OBLIGATIONS

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

| | <u>March 31, 2015</u> | <u>December 31, 2014</u> |
|---|---------------------------|------------------------------|
| Credit agreement (a) | \$ - | \$ 30,000 |
| Finance obligation (b) | 9,672 | 9,672 |
| Capital lease-property (rate of 8.0%) (c) | <u>25,394</u> | <u>25,509</u> |
| | 35,066 | 65,181 |
| Less current maturities | <u>(480)</u> | <u>(30,471)</u> |
| | <u>\$ 34,586</u> | <u>\$ 34,710</u> |

(a) On April 5, 2012, the Company, as borrower, and certain of its wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit agreement with a syndicate of four lenders led by Bank of America, N.A., as administrative agent and letter of credit issuer (the "Credit Facility"). The April 5, 2012 agreement, along with subsequent amendments dated June 18, 2013, December 20, 2013, December 29, 2014 and March 4, 2015, are collectively referred to as the "Credit Agreement."

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As of December 31, 2013, the aggregate principal amount available under the Credit Facility was \$60 million. Effective January 16, 2014, this amount was reduced to \$40 million. Effective January 15, 2015, this amount was further reduced to \$20 million. The revolving commitments available for use other than for the issuance of letters of credit under the Credit Facility have been reduced to \$12 million. During the period commencing on December 1, 2015 running through January 15, 2016, the Company is required to reduce the outstanding revolving loans, other than letters of credit obligations, to \$0. The Credit Facility may be used to finance capital expenditures and permitted acquisitions, to pay transaction expenses, for the issuance of letters of credit and for general corporate purposes. The Credit Agreement includes a \$25 million letter of credit sublimit which was reduced to \$20 million effective January 15, 2015. Borrowings under the Credit Facility are secured by a first priority lien on substantially all of the tangible and intangible assets of the Company including real estate. All net proceeds of future sales of real property by the Company and its subsidiaries must be used to prepay revolving loans and permanently reduce the principal amount of revolving loans available under the Credit Facility. The term of the Credit Facility was 36 months, maturing on April 5, 2015 but has been extended for an additional 12 months with a new expiration date of April 5, 2016.

Amounts borrowed under the Credit Facility continue to bear interest, at the Company's option, at either (i) an interest rate based on LIBOR (or the rate of 1.00%, if greater) and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the "Eurodollar Rate") for specified interest periods or (ii) the Base Rate (as defined under the Credit Facility), in each case, plus an applicable margin rate as determined under the Credit Agreement. The "Base Rate", as defined under the Credit Facility, is the highest of (a) the rate of interest announced from time to time by Bank of America, N.A. as its prime rate, (b) the Federal Funds rate plus 0.5% and (c) a daily rate equal to the one-month LIBOR rate plus 1.0%. The Fourth Amendment re-sets the margin interest rate for (a) Base Rate loans as (i) 11.0% from March 4, 2015 through April 15, 2015, (ii) 14.0% from April 16, 2015 through May 31, 2015 and (iii) 17.0% from June 1, 2015 and thereafter and (b) Eurodollar Rate loans as (i) 12.0% from March 4, 2015 through April 15, 2015, (ii) 15.0% from April 16, 2015 through May 31, 2015 and (iii) 18.0% from June 1, 2015 and thereafter. The Company is required to pay on a quarterly basis a commitment fee equal to the amount of the then unused availability under the Credit Facility multiplied by (i) 5.0%, from March 4, 2015 through April 15, 2015, (ii) 6.0%, from April 16, 2015 through May 31, 2015 and (iii) 7.0% from June 1, 2015 and thereafter. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus an agreed upon fronting fee and customary issuance, presentation, amendment and other processing fees associated with letters of credit.

The Company paid an amendment fee of \$0.2 million and is required to pay additional amendment fees in the following amounts and on the following dates: (i) 0.5% of the revolving commitments outstanding on April 16, 2015; (ii) 0.5% of the revolving commitments outstanding on June 1, 2015; (iii) 1.0% of the revolving commitments outstanding on September 30, 2015; and (iv) 1.0% of the revolving commitments outstanding on December 31, 2015; provided, however, that no additional amendment fee will be due and owing on any such date in the event that the Credit Facility has been terminated, and all amounts due and owing under the Credit Facility are repaid in full, on or prior to such date.

At March 31, 2015, the Company had outstanding letters of credit aggregating \$7.1 million, which were primarily comprised of letters of credit for the DOE matters and real estate leases.

The Credit Agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, the Company is paying fees to the lenders that are customary for facilities of this type. As of March 31, 2015, the Company is in compliance with all financial covenants.

During the three months ended March 31, 2015, the Company had net repayments of \$30.0 million under the Credit Facility. The Company had no amounts outstanding under the Credit Facility as of March 31, 2015. The interest rates on borrowings ranged from 7.25% to 14.25%. The Company had \$30.0 million outstanding under the Credit Agreement as of December 31, 2014 which was repaid on January 3, 2015. The interest rate on this borrowing was 7.25%.

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

(c) In 2009, the Company assumed real estate capital leases in Fern Park, Florida and Hartford, Connecticut. These leases bear interest at 8% and expire in 2032 and 2031, respectively.

Scheduled maturities of long-term debt and lease obligations at March 31, 2015 are as follows:

| <u>Year ending December 31,</u> | |
|---------------------------------|------------------|
| 2015 | \$ 480 |
| 2016 | 10,302 |
| 2017 | 763 |
| 2018 | 826 |
| 2019 | 895 |
| Thereafter | 21,800 |
| | <u>\$ 35,066</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 received awards of restricted shares of common stock based on service and performance. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant.

On June 2, 2014 and December 18, 2014, performance-based shares were granted 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 vesting period on the right to vote or the right to receive dividends on any of the restricted shares.

On April 29, 2013, performance-based shares were granted which vest over four 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, 2013 and ending December 31, 2016 and (ii) the attainment of earnings before interest, taxes, depreciation and amortization targets during each of the fiscal years ended December 31, 2013 through 2016. There is no vesting period on the right to vote or the right to receive dividends on any of the restricted shares.

Pursuant to the Non-Employee Directors Plan, each non-employee director of the Company receives an annual award of restricted shares of common stock on the date of the Company's annual meeting of shareholders. The number of shares granted to each non-employee director is based on the fair market value of a share of common stock on that date. The restricted shares vest on the first anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares.

For the three months ended March 31, 2015 and 2014, the Company completed a net share settlement for 9,208 and 15,209 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 employee during 2015 and/or 2014, creating taxable income for the employee. At the employees' request, the Company will pay these taxes on behalf of the employees in exchange for the employees returning an equivalent value of restricted shares to the Company. These transactions resulted in a decrease of less than \$0.1 million for each of the three months ended March 31, 2015 and 2014, respectively, to equity on the consolidated balance sheets as the cash payment of the taxes effectively was a repurchase of the restricted shares granted in previous years.

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

| | Shares | Weighted Average Grant Date Fair Value Per Share |
|---|----------------|---|
| Nonvested restricted stock outstanding at December 31, 2014 | 925,819 | \$ 5.04 |
| Canceled | (168,432) | 6.21 |
| Vested | (38,671) | 11.63 |
| Nonvested restricted stock outstanding at March 31, 2015 | <u>718,716</u> | 4.38 |

The restricted stock expense for the three months ended March 31, 2015 and 2014 was \$0.3 million and \$1.0 million, respectively. The unrecognized restricted stock expense as of March 31, 2015 and December 31, 2014 was \$2.5 million and \$4.2 million, respectively. As of March 31, 2015, outstanding restricted shares under the LTIP had aggregate intrinsic value of \$1.6 million.

Stock Options

The fair value of the stock options used to compute stock-based compensation is the estimated present value at the date of grant using the Black-Scholes option pricing model. The following is a summary of transactions pertaining to stock options:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
|----------------------------------|----------------|--|---|--|
| Outstanding at December 31, 2014 | 424,167 | \$ 13.65 | 4.18 years | - |
| Canceled | (36,000) | 13.57 | | - |
| Outstanding at March 31, 2015 | <u>388,167</u> | 13.65 | 3.86 years | - |
| Vested or expected to vest | <u>388,167</u> | 13.65 | 3.86 years | - |
| Exercisable as of March 31, 2015 | <u>388,167</u> | 13.65 | 3.86 years | - |

As of March 31, 2015, there was no unrecognized pre-tax compensation expense.

The following table presents a summary of stock options outstanding:

| Range of Exercise Prices | At March 31, 2015 | | | | |
|--------------------------|---------------------------|--|---------------------------|---------------------------|---------------------------------------|
| | Stock Options Outstanding | | | Stock Options Exercisable | |
| | Shares | Contractual Weighted Average Life (years) | Weighted Average Price | Shares | Weighted Average Exercise Price |
| \$4.00-\$13.99 | 215,667 | 4.91 | \$ 9.60 | 215,667 | \$ 9.60 |
| \$14.00-\$19.99 | 114,000 | 2.10 | 17.81 | 114,000 | 17.81 |
| \$20.00-\$25.00 | 58,500 | 3.42 | 20.48 | 58,500 | 20.48 |
| | <u>388,167</u> | 3.86 | 13.65 | <u>388,167</u> | 13.65 |

7. INCOME TAXES

The provision for income taxes for the three months ended March 31, 2015 was \$50,000, or 0.7% of pretax loss, compared to a provision for income taxes of \$419,000, or 4.2%, of pretax income for the quarter ended March 31, 2014.

The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of 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 valuation allowance on its net deferred tax assets as of March 31, 2015.

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.

9. PENSION PLAN

The Company sponsors a noncontributory defined benefit pension plan covering some of the Company's employees who were employed by the Company prior to 1995. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994. The total amount of the Company's contributions paid under its pension plan was zero for the three months ended March 31, 2015 and 2014. The net periodic benefit cost was less than \$0.1 million for the three months ended March 31, 2015 and 2014.

10. SEGMENTS

The for-profit education industry has been impacted by numerous regulatory changes, the changing economy and an onslaught of negative articles in the press. As a result of these actions, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over 10 locations and exited its online business. The Company reviewed how it has been structured and decided to change its organization including reorganizing its Group Presidents to oversee each of the reporting segments. By aggregating the remaining 31 operating segments into three reporting segments the Company is better able to allocate financial and human resources to respond to its markets and with the goal of improving its profitability and competitive advantage.

In the past, the Company offered any combination of programs in any market and at any campus. The Company is changing its focus to program offerings that create greater differentiation and attain excellence to attract more students and gain market share. Also strategically, the Company wants to offer continuing education training to employers who hire its students and this is best achieved at campuses focused on their profession.

As a result of these environmental, market forces and strategic decisions, the Company now operates in three reportable segments: a) Transportation and Skilled Trades, b) Healthcare and Other Professions and c) Transitional.

Our reportable segments have been determined based on the method by which our chief operating decision maker now evaluates performance and allocates resources. Each reportable segment represents a group of postsecondary 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. The Company's operating segments have been aggregated into three reportable segments because, in the Company's judgment, the reporting units have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics. Our reporting segments are described below.

Transportation and Skilled Trades – Transportation and Skilled Trades 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 – Healthcare and Other Professions 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 – Transitional refers to operations that are being phased out and consists of our Fern Park, Florida campus that is currently being taught out. This school is employing a gradual teach-out process that enables the school to continue to operate while current students complete their course of study. The school is no longer enrolling new students. In the fourth quarter of 2014, we announced that we are teaching out our campus in Fern Park, Florida which is expected to be complete by March 2016.

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

Summary financial information by reporting segment is as follows:

| | For the Three Months Ended March 31, | | | | | |
|-----------------------------------|--------------------------------------|------------|------------------|------------|-------------------------|-------------------|
| | Revenue | | | | Operating (Loss) Income | |
| | 2015 | % of Total | 2014 | % of Total | 2015 | 2014 |
| Transportation and Skilled Trades | \$ 44,844 | 58.5% | \$ 44,534 | 56.2% | \$ 4,975 | \$ 2,336 |
| Healthcare and Other Professions | 31,289 | 40.8% | 33,861 | 42.8% | (504) | (679) |
| Transitional | 587 | 0.8% | 807 | 1.0% | (720) | (455) |
| Corporate | - | 0.0% | - | 0.0% | (9,189) | (9,814) |
| Total | <u>\$ 76,720</u> | 100.0% | <u>\$ 79,202</u> | 100.0% | <u>\$ (5,438)</u> | <u>\$ (8,612)</u> |

| | Total Assets | |
|-----------------------------------|-------------------|-------------------|
| | March 31, 2015 | December 31, 2014 |
| Transportation and Skilled Trades | \$ 97,695 | \$ 97,650 |
| Healthcare and Other Professions | 62,921 | 62,377 |
| Transitional | 2,108 | 2,184 |
| Corporate | 14,172 | 51,473 |
| Discontinued Operations | - | 23 |
| Total | <u>\$ 176,896</u> | <u>\$ 213,707</u> |

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

The following discussion may contain forward-looking statements regarding the Company, our business, prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014, 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, 2014, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2014.

General

We are a leading provider of diversified career-oriented post-secondary education. We reorganized our operations in the first quarter of 2015 into three reportable segments: a) Transportation and Skilled Trades, b) Healthcare and Other Professions, and c) Transitional. We offer recent high school graduates and working adults career-oriented programs. Each area of study is specifically designed to appeal to and meet the educational objectives of our student population, while also satisfying the criteria established by industry and employers. The resulting diversification limits dependence on any one industry for enrollment growth or placement opportunities and broadens potential branches for introducing new programs. As of March 31, 2015, we enrolled 13,404 students at our 31 campuses in 15 states. Our campuses primarily attract students from their local communities and surrounding areas, although our five destination campuses attract students from across the United States, and in some cases, from abroad.

Discontinued Operations

On December 3, 2014, our Board of Directors approved a plan to cease operations at five training sites in Florida. We performed a cost benefit analysis on several schools and concluded that the training sites contained a high fixed cost component and had difficulty attracting enough students due to high competition to maintain a stable profit margin. Accordingly, we ceased operations at these campuses as of December 31, 2014. This was a strategic shift to close all of our training sites and all locations that do not accept Title IV payments. The results of operations of these campuses are reflected as discontinued operations in the condensed consolidated financial statements.

The results of operations at these five training sites for the three months ended March 31, 2014 was as follows (in thousands):

| | Three Months Ended March 31, 2014 | |
|--------------------|--|-------|
| Revenue | \$ | 765 |
| Operating expenses | | 1,556 |
| Operating loss | \$ | (791) |

Critical Accounting Policies and Estimates

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

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

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

Our bad debt expense as a percentage of revenue for the three months ended March 31, 2015 and 2014 was 4.3% and 3.9%, respectively. Bad debt was negatively impacted for the three months ended March 31, 2015 by a combination of a slight deterioration in our collection history and a small increase in day's sales outstanding. We are in the process of centralizing various aspects of the financial aid process to enhance the student customer service experience, improve quality control and reduce bad debt expense. Our exposure to changes in our bad debt expense could impact our operations. A 1% increase in our bad debt expense as a percentage of revenues for the three months ended March 31, 2015 and 2014 would have resulted in an increase in bad debt expense of \$0.8 million and \$0.8 million, respectively.

We do not believe that there is any direct correlation between tuition increases, the credit we extend to students and our loan commitments. Our loan commitments to our students are made on a student-by-student basis and are predominantly a function of the specific student's financial condition. We only extend credit to the extent there is a financing gap between the tuition charged for the program and the amount of grants, loans and parental loans each student receives. Each student's funding requirements are unique. Factors that determine the amount of aid available to a student are student status (whether they are dependent or independent students), Pell Grants awarded, Plus loans awarded or denied to parents and family contributions. As a result, it is extremely difficult to predict the number of students that will need us to extend credit to them. Our tuition increases have ranged historically from 2% to 5% annually and have not meaningfully impacted overall funding requirements.

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

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

Goodwill represents a significant portion of our total assets. As of March 31, 2015, goodwill represented approximately \$22.2 million, or 12.6%, of our total assets.

There was no goodwill impairment during the three months ended March 31, 2015 and 2014.

Long-lived assets. We review the carrying value of our long-lived assets and identifiable intangibles for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We evaluate long-lived assets for impairment by examining estimated future cash flows. These cash flows are evaluated by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If we determine that an asset's carrying value is impaired, we will record a write-down of the carrying value of the asset and charge the impairment as an operating expense in the period in which the determination is made.

There was no long-lived asset impairment during the three months ended March 31, 2015 and 2014.

Bonus costs. We accrue the estimated cost of our bonus programs using current financial information as compared to target financial achievements and key performance objectives. Although our recorded liability for bonuses is based on our best estimate of the obligation, actual results could differ and require adjustment of the recorded balance.

Income taxes. We account for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" ("ASC 740"). This statement requires an asset and 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, we assess 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, we 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 our 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 our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods. On the basis of this evaluation the realization of our deferred tax assets was not deemed to be more likely than not and thus we have provided a valuation allowance on our net deferred tax assets.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three months ended March 31, 2015 and 2014, there were no interest and penalties expense associated with uncertain tax positions.

Effect of Inflation

Inflation has not had a material effect on our operations.

Results of Continuing Operations

Certain reported amounts in our analysis have been rounded for presentation purposes. The following table sets forth selected consolidated statements of continuing operations data as a percentage of revenues for each of the periods indicated:

| | Three Months Ended | |
|---|--------------------|--------|
| | March 31, | |
| | 2015 | 2014 |
| Revenue | 100.0% | 100.0% |
| Costs and expenses: | | |
| Educational services and facilities | 49.8% | 52.7% |
| Selling, general and administrative | 57.4% | 58.2% |
| Gain on sale of assets | -0.1% | -0.1% |
| Total costs and expenses | 107.1% | 110.9% |
| Operating loss | -7.1% | -10.9% |
| Interest expense, net | -1.8% | -1.6% |
| Loss from continuing operations before income taxes | -8.9% | -12.5% |
| Provision for income taxes | 0.1% | 0.5% |
| Loss from continuing operations | -9.0% | -13.0% |

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Consolidated Results of Operations

Revenue. Revenue decreased by \$2.5 million, or 3.1%, to \$76.7 million for the three months ended March 31, 2015 from \$79.2 million in the prior comparable period of 2014. The decrease was a result of a 3.9% decline in average student population, which decreased to 13,404 from 13,943, respectively. Offsetting the revenue decline from lower student population was a slight increase in average revenue per student due to tuition rate increases diluted by scholarships.

Increased scholarship awards also contributed to the revenue decline. Scholarships are recognized ratably over the term of the student's program. This has resulted in an increase in discounts applied for students currently attending our programs by \$0.9 million for the first three months of 2015 as compared to the comparable period of 2014. While scholarships have negatively impacted revenue, we believe we provide more students the opportunity to pursue their educational goals by assisting in their affordability challenge.

On a comparison basis, excluding the Las Vegas, Nevada and Hamden, Connecticut campuses, which merged into their respective neighboring campuses (the "merged campuses") during the second half of 2014, the 2015 revenue decreased by \$1.2 million, or 1.5%, and average student population declined 2.1%.

We began 2015 with approximately 300, or 2.1%, fewer students than we had on January 1, 2014; however, excluding the merged campuses, student population was essentially flat for the respective periods.

We believe we have successfully executed our strategy to improve student population. We continue to face countercyclical challenges from a low unemployment rate, which is also affecting our industry peers as well as community colleges. We remain focused on our strategy including the implementation of sales software to provide process improvement in a new operating environment for education sales.

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 \$3.6 million, or 8.5%, to \$38.2 million for the three months ending March 31, 2015 from \$41.8 million in the prior comparable period.

The expense reductions were primarily due to a \$1.6 million, or 6.7%, decrease in instructional expenses and books and tools expense. Instructional savings were a result of a reduction in the number of instructors and other related costs resulting from lower average student population. Similarly, the decrease in books and tools expense is also attributable to the decrease in average student population of approximately 500 students.

Our facilities expenses decreased by \$1.9 million, or 11.0%, primarily due to lower depreciation expense as a result of discontinued depreciation expense in connection with two campuses classified as assets held for sale and prior long-lived asset impairment expenses. In addition, rent and utilities expense decreased as a result of the merged campuses partially offset by higher insurance costs.

Our educational expenses contain a high fixed cost component and are not as scalable as some of our other expenses. As our student population decreases, we typically experience a reduction in average class size and, therefore, are not always able to align these expenses with the corresponding decrease in population. Educational services and facilities expenses, as a percentage of revenue, decreased to 49.8% from 52.7%.

Selling, general and administrative expense. Our selling, general and administrative expense decreased by \$2.1 million, or 4.6%, to \$44.0 million for the three months ending March 31, 2015 from \$46.1 million in the prior comparable period of 2014.

Administrative expense was lower by \$0.9 million, or 3.6%, as a result of management restructuring. The decrease was primarily driven by a reduction of salaries and benefit costs due to a smaller workforce. Bad debt expense as a percentage of revenue was 4.3% for the three months ended March 31, 2015, compared to 3.9% for the same period in 2014. Bad debt expense was negatively impacted by a combination of a slight deterioration in our collection history and a small increase in day's sales outstanding. We are in the process of centralizing various aspects of the financial aid process to enhance the student customer service experience, improve quality control and reduce bad debt expense.

Sales and marketing expenses decreased by \$0.6 million, or 3.4%, as a result of a reduction of \$1.4 million in sales expense partially offset by increased marketing spending of \$0.8 million. The reduction in sales expense was mainly attributable to a reduction in the number of admissions representatives dedicated to the destination schools as a result of our implementation of a centralized call center, reducing travel costs and salary expense.

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The increase in marketing spending is reflective of our strategic investment and effort to improve student enrollments during 2015. The additional investment includes costs associated with our new marketing campaign, “Lincoln Tech, America’s Technical Institute”, which were offset by savings as a result of the merged campuses.

Student services expense also decreased by \$0.6 million, or 14.6%, to \$3.6 million as a result of our smaller student population.

As a percentage of revenues, selling, general and administrative expense decreased to 57.4% in the first quarter of 2015 from 58.2% in the prior year.

As of March 31, 2015, we had outstanding loan commitments to our students of \$32.3 million, as compared to \$34.1 million at December 31, 2014. Loan commitments, net of interest that would be due on the loans through maturity, were \$22.6 million at March 31, 2015, as compared to \$24.1 million at December 31, 2014. Loan commitments decreased as a result of lower population and fewer campuses.

Net interest expense. Our net interest expense increased by \$0.4 million due to financing fees expensed associated with changes in our credit facility.

Income taxes. Our provision for income taxes was \$0.1 million, or 0.7% of pretax loss in the first quarter of 2015, compared to \$0.4 million, or 4.2% of pretax loss in the prior year period. No federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance. Income tax expense resulted from various minimal state tax expenses.

Segment Results of Operations

The for-profit education industry has been impacted by numerous regulatory changes, the changing economy and an onslaught of negative articles in the press. As a result of these actions, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over 10 locations and exited its online business. The Company reviewed how it is structured and decided to change its organization including reorganizing its Group Presidents to oversee each of the reporting segments. By aggregating the remaining 31 operating segments into three reporting segments the Company is better able to allocate financial and human resources to respond to its markets and with the goal of improving its profitability and competitive advantage.

In the past, we offered any combination of programs in any market and at any campus. We are changing our focus to program offerings that create greater differentiation and attain excellence to attract more students and gain market share. Also strategically, we want to offer continuing education training to employers who hire our students and this is best achieved at campuses focused on their profession.

As a result of these environmental, market forces and strategic decisions, we now operate in three reportable segments: a) Transportation and Skilled Trades, b) Healthcare and Other Professions and c) Transitional.

Our reportable segments have been determined based on the method by which our chief operating decision maker now evaluates performance and allocates resources. Each reportable segment represents a group of postsecondary 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 have been aggregated into three reportable segment because, in our judgment, the reporting units have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics. Our reporting segments are described below.

Transportation and Skilled Trades – Transportation and Skilled Trades 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 – Healthcare and Other Professions 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 – Transitional refers to operations that are being phased out and consists of our campus that is currently being taught out. This school is employing a gradual teach-out process that enables the school to continue to operate while current students complete their course of study. The school is no longer enrolling new students. In the fourth quarter of 2014, we announced that we are teaching out our campus in Fern Park, Florida and the teach out is expected to be complete by March 2016.

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

The following table present results for our three reportable segments.

| | Three Months Ended March 31, | | |
|-----------------------------------|-------------------------------------|-------------------|-----------------|
| | 2015 | 2014 | % Change |
| Revenue: | | | |
| Transportation and Skilled Trades | \$ 44,844 | \$ 44,534 | 0.7% |
| Healthcare and Other Professions | 31,289 | 33,861 | -7.6% |
| Transitional | 587 | 807 | -27.3% |
| Total | <u>\$ 76,720</u> | <u>\$ 79,202</u> | <u>-3.1%</u> |
| Operating Income (Loss): | | | |
| Transportation and Skilled Trades | \$ 4,975 | \$ 2,336 | 113.0% |
| Healthcare and Other Professions | (504) | (679) | 25.8% |
| Transitional | (720) | (455) | -58.2% |
| Corporate | (9,189) | (9,814) | 6.4% |
| Total | <u>\$ (5,438)</u> | <u>\$ (8,612)</u> | <u>36.9%</u> |
| Starts: | | | |
| Transportation and Skilled Trades | 1,787 | 1,860 | -3.9% |
| Healthcare and Other Professions | 1,701 | 1,901 | -10.5% |
| Transitional | 31 | 73 | -57.5% |
| Total | <u>3,519</u> | <u>3,834</u> | <u>-8.2%</u> |
| Average Population: | | | |
| Transportation and Skilled Trades | 7,223 | 7,269 | -0.6% |
| Healthcare and Other Professions | 6,031 | 6,482 | -7.0% |
| Transitional | 150 | 192 | -21.9% |
| Total | <u>13,404</u> | <u>13,943</u> | <u>-3.9%</u> |
| End of Period Population: | | | |
| Transportation and Skilled Trades | 7,215 | 7,300 | -1.2% |
| Healthcare and Other Professions | 6,053 | 6,594 | -8.2% |
| Transitional | 136 | 209 | -34.9% |
| Total | <u>13,404</u> | <u>14,103</u> | <u>-5.0%</u> |

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Transportation and Skilled Trades

Revenue increased slightly to \$44.8 million in the first three months of 2015, as compared to \$44.5 million in the comparable period, primarily driven by a 1.3% increase in average revenue per student to approximately \$6,200 as a result of tuition increases. Revenue growth was partially offset by a \$0.4 million increase in greater scholarship recognition in the current period compared to the prior year period.

Operating income improved by \$2.6 million, or 113.0%, to \$5.0 million from \$2.3 million mainly driven by the following expense reductions:

- Educational services and facilities expense reduced by \$1.7 million comprised of a \$1.2 million, or 12.1%, reduction in facilities expense, primarily due to lower depreciation expense as a result of discontinued depreciation for one campus included in assets held for sale and lower asset base due to prior long-lived asset impairments and lower instructional expenses of \$0.5 million, or 4.3%.
- Selling, general and administrative expenses reduced by \$0.7 million comprised of a \$1.0 million, or 15.7%, reduction in sales expenses attributable to a reduction in the number of admissions representatives dedicated to the destination schools as a result of implementing a centralized call center, reducing travel costs and salary expense; a \$0.3 million reduction in student services which was offset by a \$0.5 million, or 12.8%, additional marketing investment in a strategic effort to grow student enrollments. The investment include costs in connection with our new marketing campaign, "Lincoln Tech, America's Technical Institute".

Healthcare and Other Professions

Revenue decreased by \$2.6 million, or 7.6%, to \$31.3 million in the first three months of 2015 from \$33.9 million in the comparable period primarily attributable to a 0.7% decrease in average student population. Furthermore, revenue declined from higher scholarship recognition of \$0.5 million in the current period compared to the prior year period.

On a comparison basis, excluding the merged campuses, revenue decreased by \$1.3 million, or 3.9%, to \$31.3 million from \$32.6 million and average student population declined 3.1%, or by approximately 200 students.

Operating loss improved by \$0.2 million to \$0.5 million from \$0.7 million as a result of efficiencies and expense reductions which partially offset the revenue decline.

Operating loss, excluding the merged campuses, increased by \$0.2 million to \$0.5 million from \$0.3 million in the prior year period as a result of the net revenue decrease partially offset by the following expense reductions:

- Educational services and facilities expense reduced by \$0.7 million comprised of a \$0.4 million, or 5.1%, reduction in facilities expense primarily due to lower depreciation expense as a result of discontinued depreciation for one campus included in assets held for sale and lower asset base due to prior long-lived asset impairments and lower instructional expenses of \$0.3 million, or 2.8%.
- Selling, general and administrative expenses reduced by \$0.4 million comprised of a \$0.3 million, or 11.2%, reduction in sales expenses attributable to a reduction in the number of admissions; a \$0.2 million decrease in student services; and a \$0.4 million, or 5.4%, cost savings in administrative expenses. These reductions were partially offset by \$0.5 million, or 15.4%, of higher marketing investment in a strategic effort to improve student enrollment trends.

Included in the Healthcare and Other Professions segment is our Hartford, Connecticut campus which offers culinary programs. This campus is physically our largest facility at approximately 367,000 square feet including classrooms and student dorms. Consequently, the fixed overhead costs including rent, real estate taxes, utilities and maintenance are very high. For the year ended December 31, 2014, the campus had a net loss before income taxes of \$5.7 million. As a result, we continue to explore strategic opportunities in conjunction with the facility's landlord to exit the facility lease. Included in the above operating loss is \$1.1 million in connection with the Hartford campus.

Excluding the Hartford and the merged campuses, this segment resulted in operating income of \$0.6 million and \$1.1 million for the three months ended March 31, 2015 and 2014, respectively.

Transitional

This segment consists of our Fern Park, Florida campus where student enrollment has stopped and current students are being taught out through March 2016.

Revenue decreased by \$0.2 million, or 27.3%, to \$0.6 million from \$0.8 million, as compared to the current and prior year quarter, attributable to a 21.7% decrease in average student population due to suspension of new student enrollment effective February 2015.

Operating loss increased by \$0.2 million, or 38.5%, to \$0.7 million from \$0.5 million resulting primarily from revenue decline.

Corporate and Other

This category includes unallocated expenses incurred on behalf of the entire company. Corporate and Other costs decreased by \$0.6 million, or 6.4% to \$9.2 from \$9.8 million, respectively, as compared to the prior year quarter. This decrease was primarily a result of cost restructuring efforts during the second half of 2014.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements 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:

| | Three Months Ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2015 | 2014 |
| Net cash used in operating activities | \$ (6,305) | \$ (8,380) |
| Net cash used in investing activities | (679) | (576) |
| Net cash (used in) provided by financing activities | (135) | 3,156 |

As of March 31, 2015, we had cash and cash equivalents of \$5.2 million, representing a decrease of approximately \$7.1 as compared to \$12.3 million of cash, and cash equivalents as of December 31, 2014. This decrease is primarily due to a net loss during the quarter of \$6.9 million.

For the last several years, we and the proprietary school sector generally have faced deteriorating earnings growth. 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 hindered potential students from enrolling in our schools. In light of these factors, we have incurred significant operating losses as a result of lower student population. We also recorded a pre-tax goodwill impairment charge of \$39.0 million for the year ended December 31, 2014 as a result of a significant decline in market capitalization. Despite these events, we believe that our likely sources of cash should be sufficient to fund operations for the next twelve months. Our available sources of cash primarily include cash from operations, cash and cash equivalents on hand at March 31, 2015 of \$5.2 million and the ability to draw down on up to \$20 million (less letters of credit) under our revolving line of credit that was extended through April 5, 2016. 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 the ability to leverage our owned real estate that is not classified as held for sale. We are also continuing to take actions to improve cash flow by aligning our cost structure to our student population.

In addition to the aforementioned current sources of capital that will provide short term liquidity, we also plan to sell approximately \$51.7 million in assets which are currently classified as assets held for sale and are expected to be sold within one year from the date of classification. We also are currently exploring various other alternatives including debt financing vehicles and strategic partnerships. However, at this time we have no commitments to obtain any additional funds, and there can be no assurance such funds will be available on acceptable terms or at all. If we are unable to sell our assets classified as held for sale, leverage certain of our properties or obtain additional funding, our financial condition and results of operations may be materially adversely affected.

Our primary source of cash is tuition collected from our students. The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The largest of these programs are Title IV Programs which represented approximately 80% of our cash receipts relating to revenues in 2014. Students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other funding are not subject to a 30-day delay. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV financial aid is refunded according to federal, state and accrediting agency standards.

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As a result of the significance of the Title IV funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV funds that our students are eligible to receive or any impact on our ability to be able to receive Title IV funds would have a significant impact on our operations and our financial condition. See “Risk Factors” in Item 1A, included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Operating Activities

Net cash used in operating activities was \$6.3 million for the three months ended March 31, 2015 compared to \$8.4 million for the comparable period of 2014. The \$2.1 million increase in net cash primarily resulted from a reduction in net loss and other working capital items.

Investing Activities

Net cash used in investing activities was \$0.7 million compared to \$0.6 million for the three months ended March 31, 2015 and 2014, respectively. Our primary use of cash in investing activities was capital expenditures associated with investments in training technology, classroom furniture, and new program build outs.

We currently lease a majority of our campuses. We own our campuses in Grand Prairie, Texas; West Palm Beach, Florida; Nashville, Tennessee; Cincinnati (Tri-County), Ohio; Suffield, Connecticut; and Denver, Colorado. We have three properties that are held for sale.

Capital expenditures are expected to approximate 1% to 3% of revenues in 2015 as compared to 2% in 2014. We expect to fund future capital expenditures with cash generated from operating activities and cash from our real estate monetization.

Financing Activities

Net cash used in financing activities was \$0.1 million as compared to net cash provided by of \$3.2 million for the three months ended March 31, 2015 and 2014, respectively. The decrease of \$3.3 million was due to no borrowings in the first quarter of 2015 as compared to \$5.0 million of net proceeds from borrowings in the first quarter of 2014, offset by \$1.7 million in savings as a result of the previously reported dividend discontinuation.

Credit Agreement

On April 5, 2012, the Company, as borrower, and certain of our wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit agreement with a syndicate of four lenders led by Bank of America, N.A., as administrative agent and letter of credit issuer (the “Credit Facility”). The April 5, 2012 agreement, along with subsequent amendments dated June 18, 2013, December 20, 2013, December 29, 2014 and March 4, 2015, are collectively referred to as the “Credit Agreement.”

As of December 31, 2013, the aggregate principal amount available under the Credit Facility was \$60 million. Effective January 16, 2014, this amount was reduced to \$40 million. Effective January 15, 2015, this amount was further reduced to \$20 million; however, the revolving commitments available for use other than for the issuance of letters of credit under the Credit Facility have been reduced to \$12 million. During the period commencing on December 1, 2015 through January 15, 2016, we are required to reduce the outstanding revolving loans, other than letters of credit obligations, to \$0. The Credit Facility may be used to finance capital expenditures and permitted acquisitions, to pay transaction expenses, for the issuance of letters of credit and for general corporate purposes. Borrowings under the Credit Facility are secured by a first priority lien on substantially all of the tangible and intangible assets of the Company including real estate and all net proceeds of future sales of real property by us are to be used to prepay revolving loans and permanently reduce the principal amount of revolving loans available under the Credit Facility. On March 4, 2015, the term of the Credit Facility which was maturing on April 5, 2015, was extended for an additional 12 months with an expiration date of April 5, 2016.

Amounts borrowed under the Credit Facility continue to bear interest, at our option, at either (i) an interest rate based on LIBOR (or the rate of 1.00%, if greater) and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the “Eurodollar Rate”) for specified interest periods or (ii) the Base Rate (as defined under the Credit Facility), in each case, plus an applicable margin rate as determined under the Credit Agreement. The “Base Rate”, as defined under the Credit Facility, is the highest of (a) the rate of interest announced from time to time by Bank of America, N.A. as its prime rate, (b) the Federal Funds rate plus 0.5% and (c) a daily rate equal to the one-month LIBOR rate plus 1.0%. The Fourth Amendment re-sets the margin interest rate for (a) Base Rate loans as (i) 11.0% from March 4, 2015 through April 15, 2015, (ii) 14.0% from April 16, 2015 through May 31, 2015 and (iii) 17.0% from June 1, 2015 and thereafter and (b) Eurodollar Rate loans as (i) 12.0% from March 4, 2015 through April 15, 2015, (ii) 15.0% from April 16, 2015 through May 31, 2015 and (iii) 18.0% from June 1, 2015 and thereafter. We are required to pay on a quarterly basis a commitment fee equal to the amount of the then unused availability under the Credit Facility multiplied by (i) 5.0%, from March 4, 2015 through April 15, 2015, (ii) 6.0%, from April 16, 2015 through May 31, 2015 and (iii) 7.0% from June 1, 2015 and thereafter. Letters of credit require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus an agreed upon fronting fee and customary issuance, presentation, amendment and other processing fees associated with letters of credit.

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We paid the lenders an amendment fee of \$0.2 million and we are required to pay additional amendment fees in the following amounts on the following dates: (i) 0.5% of the revolving commitments outstanding on April 16, 2015; (ii) 0.5% of the revolving commitments outstanding on June 1, 2015; (iii) 1.00% of the revolving commitments outstanding on September 30, 2015; and (iv) 1.0% of the revolving commitments outstanding on December 31, 2015; provided, however, that no additional amendment fee will be due and owing on any such date in the event that the Credit Facility has been terminated, and all amounts due and owing under the Credit Facility are repaid in full, on or prior to such date.

The Credit Agreement contains representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, we are paying fees to the lenders that are customary for facilities of this type. As of March 31, 2015 we are in compliance with all financial covenants.

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

| | March 31, 2015 | December 31, 2014 |
|---------------------------------------|-------------------|----------------------|
| Credit agreement | \$ - | \$ 30,000 |
| Finance obligation | 9,672 | 9,672 |
| Capital lease-property (rate of 8.0%) | 25,394 | 25,509 |
| | 35,066 | 65,181 |
| Less current maturities | (480) | (30,471) |
| | <u>\$ 34,586</u> | <u>\$ 34,710</u> |

Contractual Obligations

Long-term Debt. As of March 31, 2015, our long-term debt consisted of the finance obligation in connection with our sale-leaseback transaction in 2001 and amounts due under capital lease obligations.

Lease Commitments. We lease offices, educational facilities and equipment for varying periods through the year 2032 at base annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of March 31, 2015 (in thousands):

| | Payments Due by Period | | | | |
|-------------------------------------|------------------------|---------------------|------------------|------------------|------------------|
| | Total | Less than 1 year | 2-3 years | 4-5 years | After 5 years |
| Capital leases (including interest) | \$ 46,920 | \$ 2,494 | \$ 5,280 | \$ 5,356 | \$ 33,790 |
| Operating leases | 97,710 | 19,732 | 31,462 | 25,331 | 21,185 |
| Rent on finance obligation | 2,778 | 1,588 | 1,190 | - | - |
| Total contractual cash obligations | <u>\$ 147,408</u> | <u>\$ 23,814</u> | <u>\$ 37,932</u> | <u>\$ 30,687</u> | <u>\$ 54,975</u> |

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2015, except for our letters of credit of \$7.1 million which are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

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, numerous regulatory changes such as changes to admissions advisor compensation policies, elimination of ATB, 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 continue to decline our student enrollment has been negatively impacted due to a portion of our potential student base which has entered the workforce prematurely without obtaining any post-secondary training. Offsetting this short term decline in available students is the fact that an increasing number of 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 15 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 the ability to leverage our owned real estate including selling our assets that are classified as held for sale. We are also continuing to take actions to improve cash flow by aligning our cost structure to our student population.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. We have a Credit Agreement with a syndicate of banks. Our obligations under the Credit Agreement are secured by a lien on substantially all of our assets and our subsidiaries and any assets that we or our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries’ common stock. As of March 31, 2015, we had no outstanding under our credit agreement.

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

Changes in interest rates could have an impact however on our operations, which are greatly dependent on students’ ability to obtain financing. 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.

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

On November 21, 2012, we received a Civil Investigation Demand from the Attorney General of the Commonwealth of Massachusetts relating to its investigation of whether we and certain of our academic institutions have complied with certain Massachusetts state consumer protection and finance laws. On July 29, 2013 and January 17, 2014, we received follow-up Civil Investigative Demands. Pursuant to the Civil Investigative Demands, the Attorney General has requested from us and certain of our academic institutions documents and detailed information from the time period January 1, 2008 to the present. The Company has responded to this request and intends to continue cooperating with the Attorney General's Office.

Item 6. EXHIBITS

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 10.1 | Fourth Amendment and Waiver to the Credit Agreement, dated as of March 4, 2015, among the Company, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Bank of America, N.A., as Administrative Agent (1). |
| 10.2 | Separation and Release Agreement dated as of February 2, 2015 between the Company and Piper Jameson (2) #. |
| 10.3 | Employment Agreement, dated as of January 30, 2015, between the Company and Shaun E. McAlmont (2) #. |
| 10.4 | Employment Agreement, dated as of January 30, 2015, between the Company and Scott M. Shaw (2) #. |
| 10.5 | Amendment to Employment Agreement, dated as of March 12, 2015, between the Company and Kenneth M. Swisstack (3) #. |
| 10.6 | Employment Agreement, dated as of March 12, 2015, between the Company and Brian K. Meyers (3) #. |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101** | The following financial statements from Lincoln Educational Services Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed on May 11, 2015, formatted in XBRL: (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statement of Changes in Stockholders' Equity, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and in detail. |

(1) Incorporated by reference to the Company's Form 8-K filed March 10, 2015.

(2) Incorporated by reference to Exhibits 10.1, 10.2 and 10.3 of the Company's Form 8-K filed February 5, 2015.

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- (3) Incorporated by reference to Exhibits 10.9 and 10.10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
- * 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.
- # Indicates management contract or compensatory plan or arrangement required to be identified pursuant to Item 6 of this Quarterly Report on Form 10-Q.

SIGNATURES

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

LINCOLN EDUCATIONAL SERVICES CORPORATION

Date: May 11, 2015

By: /s/ Brian Meyers
Brian Meyers
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Accounting and Principal Financial Officer)

CERTIFICATION

I, Shaun E. McAlmont, certify that:

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

Date: May 11, 2015

/s/ Shaun E. McAlmont
Shaun E. McAlmont
Chief Executive Officer

CERTIFICATION

I, Brian Meyers, certify that:

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

Date: May 11, 2015

/s/ Brian Meyers

Brian Meyers
Chief Financial Officer

CERTIFICATION

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

Each of the undersigned, Shaun E. McAlmont, Chief Executive Officer of Lincoln Educational Services Corporation (the "Company"), and Brian Meyers, Chief Financial Officer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 (the "Report").

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

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

Date: May 11, 2015

/s/ Shaun E. McAlmont

Shaun E. McAlmont
Chief Executive Officer

/s/ Brian Meyers

Brian Meyers
Acting Principal Financial Officer
