

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

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**Form 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011**

**or**

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

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

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**Commission File Number 000-51371**

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**LINCOLN EDUCATIONAL SERVICES CORPORATION**

(Exact name of registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**57-1150621**

(IRS Employer Identification No.)

**200 Executive Drive, Suite 340  
West Orange, NJ**

(Address of principal executive offices)

**07052**

(Zip Code)

**(973) 736-9340**

(Registrant's telephone number, including area code)

**No change**

(Former name, former address and former fiscal year, if changed since last report)

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

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 ☐

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

Accelerated filer ☒

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 November 4, 2011, there were 22,624,898 shares of the registrant's common stock outstanding.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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**PART I – FINANCIAL INFORMATION**

## Item 1. Financial Statements

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

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 26,133	\$ 65,995
Restricted cash	1	694
Accounts receivable, less allowance of \$20,642 and \$24,960 at September 30, 2011 and December 31, 2010, respectively	20,405	33,697
Inventories	3,383	3,555
Prepaid income taxes	12,552	-
Deferred income taxes, net	9,288	11,057
Prepaid expenses and other current assets	1,969	2,494
Total current assets	<u>73,731</u>	<u>117,492</u>
<b>PROPERTY, EQUIPMENT AND FACILITIES</b> - At cost, net of accumulated depreciation and amortization of \$119,842 and \$111,164 at September 30, 2011 and December 31, 2010, respectively		
	<u>180,360</u>	<u>172,431</u>
<b>OTHER ASSETS:</b>		
Noncurrent receivables, less allowance of \$1,777 and \$2,033 at September 30, 2011 and December 31, 2010, respectively	5,669	6,807
Deferred finance charges, net	715	987
Deferred income taxes, net	4,414	1,524
Goodwill	97,371	106,709
Other assets, net	4,202	6,872
Total other assets	<u>112,371</u>	<u>122,899</u>
<b>TOTAL</b>	<u><u>\$ 366,462</u></u>	<u><u>\$ 412,822</u></u>

See notes to unaudited condensed consolidated financial statements.

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

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt and lease obligations	\$ 510	\$ 437
Unearned tuition	46,347	50,944
Accounts payable	19,674	25,617
Accrued expenses	14,041	26,071
Dividends payable	-	16,650
Advanced payments from federal funds	299	578
Income taxes payable	-	1,044
Other short-term liabilities	424	327
Total current liabilities	<u>81,295</u>	<u>121,668</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt and lease obligations, net of current portion	36,127	56,508
Pension plan liabilities, net	3,362	2,816
Accrued rent	8,093	7,758
Other long-term liabilities	1,174	1,587
Total liabilities	<u>130,051</u>	<u>190,337</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at September 30, 2011 and December 31, 2010	-	-
Common stock, no par value - authorized 100,000,000 shares at September 30, 2011 and December 31, 2010, issued and outstanding 28,538,640 shares at September 30, 2011 and 28,109,987 shares at December 31, 2010	141,307	140,726
Additional paid-in capital	19,620	17,378
Treasury stock at cost - 5,910,541 shares at September 30, 2011 and December 31, 2010, respectively	(82,860)	(82,860)
Retained earnings	163,092	151,989
Accumulated other comprehensive loss	(4,748)	(4,748)
Total stockholders' equity	<u>236,411</u>	<u>222,485</u>
<b>TOTAL</b>	<u><u>\$ 366,462</u></u>	<u><u>\$ 412,822</u></u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUE	\$ 123,482	\$ 167,211	\$ 397,064	\$ 472,471
COSTS AND EXPENSES:				
Educational services and facilities	57,419	63,304	171,054	180,292
Selling, general and administrative	60,732	71,532	192,858	211,506
(Gain) loss on sale of assets	(3)	(1)	5	(8)
Impairment of goodwill and long-lived assets	10,377	-	10,377	-
Total costs & expenses	<u>128,525</u>	<u>134,835</u>	<u>374,294</u>	<u>391,790</u>
OPERATING (LOSS) INCOME	(5,043)	32,376	22,770	80,681
OTHER:				
Interest income	2	5	8	26
Interest expense	(1,091)	(1,088)	(3,277)	(3,385)
Other income (loss)	4	(7)	17	41
(LOSS) INCOME BEFORE INCOME TAXES	(6,128)	31,286	19,518	77,363
(BENEFIT) PROVISION FOR INCOME TAXES	(2,202)	12,405	8,158	30,826
NET (LOSS) INCOME	<u>\$ (3,926)</u>	<u>\$ 18,881</u>	<u>\$ 11,360</u>	<u>\$ 46,537</u>
Basic				
Net (loss) income per share	<u>\$ (0.18)</u>	<u>\$ 0.77</u>	<u>\$ 0.52</u>	<u>\$ 1.84</u>
Diluted				
Net (loss) income per share	<u>\$ (0.18)</u>	<u>\$ 0.76</u>	<u>\$ 0.51</u>	<u>\$ 1.80</u>
Weighted average number of common shares outstanding:				
Basic	22,045	24,492	21,996	25,273
Diluted	22,045	24,984	22,153	25,920

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			Comprehensive	
						Loss	
BALANCE - January 1, 2011	28,109,987	\$ 140,726	\$ 17,378	\$ (82,860)	\$ 151,989	\$ (4,748)	\$ 222,485
Net income	-	-	-	-	11,360	-	11,360
Stock-based compensation expense							
Restricted stock	382,196	-	2,485	-	-	-	2,485
Stock options	-	-	257	-	-	-	257
Tax benefit associated with exercise of share based payments, net	-	-	(122)	-	-	-	(122)
Net share settlement for equity-based compensation	(24,527)	-	(378)	-	-	-	(378)
Cash dividend declared true-up	-	-	-	-	(257)	-	(257)
Exercise of stock options	70,984	581	-	-	-	-	581
BALANCE - September 30, 2011	<u>28,538,640</u>	<u>\$ 141,307</u>	<u>\$ 19,620</u>	<u>\$ (82,860)</u>	<u>\$ 163,092</u>	<u>\$ (4,748)</u>	<u>\$ 236,411</u>

See notes to unaudited condensed consolidated financial statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,360	\$ 46,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,269	19,667
Amortization of deferred finance charges	272	269
Deferred income taxes	(1,121)	(590)
Loss (gain) on disposition of assets	5	(8)
Impairment of goodwill and long-lived assets	10,377	-
Provision for doubtful accounts	23,723	31,289
Stock-based compensation expense	2,742	1,859
Tax benefit associated with exercise of share based payments	(98)	(1,443)
Deferred rent	493	1,372
(Increase) decrease in assets:		
Accounts receivable	(9,293)	(33,268)
Inventories	172	(631)
Prepaid income taxes	(13,718)	(4,403)
Prepaid expenses and current assets	(534)	5,451
Other assets	484	(1,337)
Increase (decrease) in liabilities:		
Accounts payable	(2,126)	(1,226)
Accrued expenses	(12,188)	(985)
Pension plan liabilities	(204)	(708)
Advance from federal funds	(279)	1,007
Unearned tuition	(4,597)	5,019
Other liabilities	434	206
Total adjustments	15,813	21,540
Net cash provided by operating activities	27,173	68,077
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restricted cash	693	(200)
Capital expenditures	(30,850)	(33,489)
Proceeds from sale of property and equipment	36	72
Net cash used in investing activities	(30,121)	(33,617)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on borrowings	(20,000)	(20,000)
Proceeds from exercise of stock options	581	2,867
Tax benefit associated with exercise of share based payments	98	1,443
Net share settlement for equity-based compensation	(378)	(128)
Dividends paid	(16,907)	-
Principal payments under capital lease obligations	(308)	(288)
Purchase of treasury stock	-	(50,000)
Net cash used in financing activities	(36,914)	(66,106)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(39,862)	(31,646)
<b>CASH AND CASH EQUIVALENTS—Beginning of period</b>	65,995	46,076
<b>CASH AND CASH EQUIVALENTS—End of period</b>	\$ 26,133	\$ 14,430

See notes to unaudited condensed consolidated financial statements.

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

(In thousands)  
(Unaudited)  
(Continued)

	<b>Nine Months Ended September 30,</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 3,103	\$ 3,153
Income taxes	\$ 23,096	\$ 36,092
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Liabilities accrued for the purchase of fixed assets	\$ 1,925	\$ 2,818

See notes to unaudited condensed consolidated financial statements.



**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
**(In thousands, except share and per share amounts and unless otherwise stated)**  
**(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activities** – Lincoln Educational Services Corporation and subsidiaries (the “Company”) is a provider of diversified career-oriented post-secondary education. The Company offers recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. The Company currently has 46 schools in 17 states across the United States.

**Basis of Presentation** – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. These statements, which should be read in conjunction with the December 31, 2010 consolidated financial statements of the Company, reflect all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations, and cash flows for such periods. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011.

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.

**Stock-Based Compensation** – The accompanying condensed consolidated statements of operations include stock-based compensation expense of approximately \$0.6 million for each of the three months ended September 30, 2011 and 2010, and \$2.7 million and \$1.9 million for the nine months ended September 30, 2011 and 2010, respectively. The Company uses the Black-Scholes valuation model and utilizes straight-line amortization of compensation expense over the requisite service period of the grant. The Company makes an estimate of expected forfeitures at the time options are granted.

**New Accounting Pronouncements**

The Company has reviewed recently issued accounting pronouncements and believes none will have any material impact on the Company’s condensed consolidated financial statements.

## 2. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted (loss) income per share for the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic shares outstanding	22,045,104	24,491,967	21,995,977	25,272,749
Dilutive effect of stock options	-	492,352	157,301	646,977
Diluted shares outstanding	22,045,104	24,984,319	22,153,278	25,919,726

For the three months ended September 30, 2011 and 2010, options to acquire 414,583 and 328,333 shares, respectively, and for the nine months ended September 30, 2011 and 2010, options to acquire 293,333 and 64,500 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 earnings per share would have been antidilutive. For the three months ended September 30, 2011, options to acquire 110,978 shares were excluded from the above table because the Company reported a net loss for the quarter and therefore their impact on reported earnings per share would have been antidilutive.

Certain performance conditions have not been met with respect to the Company's performance shares. As a result, the Company has determined these shares to be contingently issuable on April 29, 2011. Accordingly, 134,131 shares of outstanding performance shares have been excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2011.

## 3. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reviews intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill for impairment, with any resulting impairment reflected as an operating expense. The Company concluded that the decrease in the Company's market capitalization as of September 30, 2011 was a triggering event and, accordingly, the Company tested goodwill and indefinite lived intangibles for impairment. The tests indicated that five of the Company's reporting units were impaired, which resulted in an expense of \$9.4 million in the third quarter of 2011. In addition, the Company recorded an impairment charge of \$1.0 million in the third quarter of 2011 related to a regional accreditation indefinite intangible asset that is no longer being utilized.

The carrying amount of goodwill at September 30, 2011 is as follows:

Balance as of January 1, 2011	
Goodwill	\$ 115,303
Accumulated impairment losses	(8,594)
	<u>106,709</u>
Goodwill impairment	
	<u>(9,338)</u>
Balance as of September 30, 2011	
Goodwill	115,303
Accumulated impairment losses	(17,932)
	<u>\$ 97,371</u>

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

	Student Contracts	Indefinite Trade Name	Trade Name	Accreditation	Curriculum	Non-compete	Total
Gross carrying amount at December 31, 2010	\$ 4,827	\$ 660	\$ 839	\$ 2,307	\$ 1,150	\$ 2,181	\$ 11,964
Reclassification (1)	-	(480)	480	-	-	-	-
Write-off (2)	(4,827)	-	(810)	-	-	(201)	(5,838)
Impairment (3)	-	-	-	(1,039)	-	-	(1,039)
Gross carrying amount at September 30, 2011	-	180	509	1,268	1,150	1,980	5,087
Accumulated amortization at December 31, 2010	4,824	-	503	-	505	1,478	7,310
Amortization	3	-	547	-	86	516	1,152
Write-off (2)	(4,827)	-	(810)	-	-	(206)	(5,843)
Accumulated amortization at September 30, 2011	-	-	240	-	591	1,788	2,619
Net carrying amount at September 30, 2011	\$ -	\$ 180	\$ 269	\$ 1,268	\$ 559	\$ 192	\$ 2,468
Weighted average amortization period (years)		Indefinite	6	Indefinite	10	3	

(1) Reclassification due to the Company's plan to rebrand one of its institutions.

(2) The Company wrote-off the value of fully depreciated assets not in service.

(3) The impairment relates to regional accreditation indefinite intangible asset that is no longer being utilized.

Amortization of intangible assets was approximately \$0.7 million and \$0.5 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$1.2 million and \$2.0 million for the nine months ended September 30, 2011 and 2010, respectively.

The following table summarizes the estimated future amortization expense:

<b>Year Ending December 31,</b>	
Remainder of 2011	\$ 216
2012	232
2013	181
2014	160
2015	91
Thereafter	140
	<u>\$ 1,020</u>

#### 4. LONG-TERM DEBT AND LEASE OBLIGATIONS

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

	September 30, 2011	December 31, 2010
Credit agreement (a)	\$ -	\$ 20,000
Finance obligation (b)	9,672	9,672
Capital lease-property (rate of 8.0%) (c)	26,837	26,986
Capital leases-equipment (rates ranging from 5.0% to 8.5%)	128	287
	36,637	56,945
Less current maturities	(510)	(437)
	<u>\$ 36,127</u>	<u>\$ 56,508</u>

(a) On December 1, 2009, the Company, as borrower, and all of its wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit agreement (the "Credit Agreement") with a syndicate of seven lenders led by Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, for an aggregate principal amount of up to \$115 million (the "Credit Facility"). The credit agreement expires December 1, 2012.

Amounts borrowed as revolving loans under the Credit Facility will bear interest, at the Company's option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the "Euro Dollar Rate") for specified interest periods or (ii) the Base Rate (as defined in the Credit Agreement), in each case, plus an applicable margin rate as determined under the Credit Agreement. The "Base Rate," as defined under the Credit Agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one month of the Euro Dollar Rate plus 1.0%. Under the Credit Agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in the Company's consolidated leverage ratio and depending on whether the Company has chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At September 30, 2011 and December 31, 2010, the Company had outstanding letters of credit aggregating \$0.5 million, which were primarily comprised of letters of credit for the Department of Education matters and real estate leases.

The Credit Agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, the Company is paying fees to the lenders that are customary for facilities of this type. As of September 30, 2011, the Company was in compliance with the covenants contained in the credit agreement.

As of September 30, 2011, the Company had no amounts outstanding under the Credit Agreement. As of December 31, 2010, the Company had a total of \$20.0 million outstanding under its Credit Agreement. During the nine months ended September 30, 2011, the Company repaid \$20.0 million under its Credit Facility. The interest rate on borrowings under the Credit Facility during the nine months ended September 30, 2011 was 4.75%.

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

(c) 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.

#### 5. STOCKHOLDERS' EQUITY

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

Under the LTIP, certain employees received awards of restricted shares of common stock. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant. As of September 30, 2011, there were a total of 774,456 restricted shares awarded and 251,265 shares vested under the LTIP. The restricted shares granted prior to February 23, 2011 vest ratably on the first through fifth anniversaries of the grant date. The restricted shares granted on February 23, 2011 vest ratably on the grant date and the first through fourth anniversaries of the grant date. On April 29, 2011, 134,131 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, 2011 and ending December 31, 2014 and (ii) the attainment of earnings before interest, taxes, depreciation and amortization targets during each of the fiscal years ended December 31, 2011, 2012, 2013 and 2014. There is no vesting period on the right to vote or the right to receive dividends on any of the restricted shares. The recognized restricted stock expense for the three months ended September 30, 2011 and 2010 was \$0.4 million and \$0.3 million, respectively, and for the nine months ended September 30, 2011 and 2010 was \$2.0 million and \$1.0 million, respectively. The unrecognized restricted stock expense under the LTIP as of September 30, 2011 and December 31, 2010 was \$7.0 million and \$3.4 million, respectively.

Pursuant to the Non-Employee Directors Plan, each non-employee director of the Company receives an annual award of restricted shares of common stock on the date of the Company's annual meeting of shareholders. The number of shares granted to each non-employee director is based on the fair market value of a share of common stock on that date. The restricted shares vest ratably on the first through third anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. Beginning in 2010, all new awards of common stock granted under the Non-Employee Directors Plan vest on the first anniversary of the grant date. As of September 30, 2011, there were a total of 155,641 shares awarded less 5,035 shares canceled and 116,238 shares vested under the Non-Employee Directors Plan. The recognized restricted stock expense for the three months ended September 30, 2011 and 2010 was \$0.1 million and \$0.2 million, respectively, and for the nine months ended September 30, 2011 and 2010 was \$0.5 million, respectively. The unrecognized restricted stock expense under the Non-Employee Directors Plan as of September 30, 2011 and December 31, 2010 was \$0.3 million.

For the nine months ended September 30, 2011 and 2010, the Company completed a net share settlement for 24,527 and 5,641 restricted shares, respectively, on behalf of some employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP. The net share settlement was in connection with income taxes incurred on restricted shares that vested and were transferred to the employee during 2011 and/or 2010, creating taxable income for the employee. The Company has agreed to pay these taxes on behalf of the employees in return for the employee returning an equivalent value of restricted shares to the Company. This transaction resulted in a cash payment of approximately \$0.4 million and \$0.1 million for the nine months ended September 30, 2011 and 2010, respectively.

#### *Fair Value of Stock Options*

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

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2010	720,940	14.59	5.14 years	\$ 2,095
Canceled	(25,834)	19.63		
Exercised	(70,984)	8.18		579
Outstanding September 30, 2011	<u>624,122</u>	15.11	4.49 years	360
Vested or expected to vest	<u>609,990</u>	14.99	4.40 years	360
Exercisable as of September 30, 2011	<u>553,462</u>	14.46	3.99 years	360

As of September 30, 2011, the unrecognized pre-tax compensation expense for all unvested stock option awards was \$0.4 million. This amount will be expensed over the weighted-average period of approximately 2.16 years.

The following table presents a summary of stock options outstanding:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Contractual Weighted Average Life (years)	Weighted Average Price	Shares	Weighted Exercise Price
\$3.10	72,047	0.25	\$ 3.10	72,047	\$ 3.10
\$4.00-\$13.99	137,492	5.82	11.96	137,492	11.96
\$14.00-\$19.99	277,083	4.45	16.42	245,087	16.02
\$20.00-\$25.00	137,500	5.48	21.91	98,836	22.35
	<u>624,122</u>	4.49	15.11	<u>553,462</u>	14.46

## 6. INCOME TAXES

The benefit for income taxes for the quarter ended September 30, 2011 was \$2.2 million, or 35.9% of pretax loss, compared to a provision for income taxes of \$12.4 million, or 39.7% of pretax income for the quarter ended September 30, 2010. The effective tax rate benefit decreased compared to the provision due to \$1.4 million of nondeductible goodwill impairment charges.

The provision for income taxes for the nine months ended September 30, 2011 was \$8.2 million, or 41.8% of pretax income, compared to \$30.8 million, or 39.8% of pretax income for the nine months ended September 30, 2010. The effective tax rate increased due to \$1.4 million of nondeductible goodwill impairment charges for the nine months ended September 30, 2011.

## 7. CONTINGENCIES

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

The Company and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that the Company and the other defendants made false and misleading statements and failed to disclose material adverse facts about the Company's business and prospects in violation of federal securities laws. Each plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, *Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al.*, and *Robert Lythaud v. Lincoln Educational Services Corp., et al.* On November 24, 2010, the Court consolidated the two actions under the caption *In re Lincoln Educational Services Corp. Securities Litigation* and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011. On April 15, 2011, defendants filed a motion to dismiss all of the claims asserted therein. On September 6, 2011, the Court entered an order granting defendants' motion to dismiss the consolidated amended complaint with prejudice. As of the date of this filing, plaintiffs have not filed a notice of appeal.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned *Mike Schweertmann v. David F. Carney, et al.* The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned *Gregory and Karen Lehner v. Shaun E. McAlmont, et al.* The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned *Steven C. Lloyd and Paul Stone v. David F. Carney, et al.* All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On October 18, 2011, the parties to the *Schweertmann* action filed with the Court a stipulation of voluntary dismissal of the action without prejudice, which the Court ordered on October 24, 2011. On October 21, 2011, plaintiffs in the *Lloyd* action filed a notice of voluntary dismissal of the action without prejudice, which the Court ordered on October 26, 2011.

The Company believes the lawsuits are without merit and intends to vigorously defend against them.

On May 18, 2011, the Company received a subpoena duces tecum from the Attorney General of the State of New York relating to their investigation of whether the Company and certain of its academic institutions have complied with certain New York state consumer protection, securities and finance laws. Pursuant to the subpoena duces tecum, the Attorney General has requested from the Company and certain of its academic institutions documents and detailed information for the time period beginning May 17, 2005 to the present.

#### **8. PENSION PLAN**

The Company sponsors a noncontributory defined benefit pension plan covering substantially all of the Company's union employees. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994 for non-union employees. The total amount of the Company's contributions paid under its pension plan was \$0.2 million for the nine months ended September 30, 2011 and \$0.7 million for the nine months ended September 30, 2010. The net periodic benefit cost was \$0.3 million and \$0.1 million for the three months ended September 30, 2011 and 2010, respectively, and \$0.8 million and \$0.5 million for the nine months ended September 30, 2011 and 2010, respectively.

#### **9. DIVIDENDS**

On November 3, 2010, the Company's Board of Directors declared an annual cash dividend of \$1.00 per share of common stock outstanding, payable quarterly. The dividend was recorded as a reduction to retained earnings as of December 31, 2010 and adjusted for actual payments as of December 31, 2010, March 31, 2011, June 30, 2011 and September 30, 2011. The record date for the fourth quarterly dividend payment of \$5.7 million was September 15, 2011 and the payment date was September 30, 2011. The establishment of future record and payment dates is subject to the final determination of the Company's Board of Directors.

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

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission ("SEC") and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

The interim financial statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with the annual financial statements and notes included in our Form 10-K for the year ended December 31, 2010, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2010.

### **General**

We are a leading provider of diversified career-oriented post-secondary education. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. Each area of study is specifically designed to appeal to and meet the educational objectives of our student population, while also satisfying the criteria established by industry and employers. The resulting diversification limits dependence on any one industry for enrollment growth or placement opportunities and broadens our opportunities for introducing new programs. As of September 30, 2011, 22,526 students were enrolled at our 46 campuses across 17 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.

### **Critical Accounting Policies and Estimates**

Our discussions of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, 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. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result from the result derived from the application of our critical accounting policies. We believe that the following accounting policies are most critical to us in that they represent the primary areas where financial information is subject to the application of management's estimates, assumptions and judgment in the preparation of our consolidated financial statements.

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

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



Our bad debt expense as a percentage of revenues for the three months ended September 30, 2011 and 2010 was 7.8% and 7.7%, respectively, and for the nine months ended September 30, 2011 and 2010 was 6.0% and 6.6%, respectively. Our exposure to changes in our bad debt expense could impact our operations. A 1% increase in our bad debt expense as a percentage of revenues for the three months ended September 30, 2011 and 2010 would have resulted in an increase in bad debt expense of \$1.2 million and \$1.7 million, respectively, and for the nine months ended September 30, 2011 and 2010 would have resulted in an increase in bad debt expense of \$4.0 million and \$4.7 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 not possible to precisely predict the number of students that will need us to extend credit to them. Our tuition increases have ranged historically from 3% to 5% annually and have not meaningfully impacted overall funding requirements, since the amount of financial aid funding available to students in recent years has increased at greater rates than our tuition increases.

We reserve for bad debt based upon our experience and judgment. In establishing our reserve, we consider, among other things, current and expected economic conditions, a student's status (in-school or out-of-school), whether or not additional financial aid funding will be collected from Title IV Programs or other sources, whether or not a student is currently making payments, and overall collection history. Our analysis is updated quarterly to ensure that our reserves are aligned with current market conditions. Changes in trends in any of these areas may impact bad debt expense.

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, schools, or educational programs to participate in Title IV programs could have a material effect on our ability to realize our receivables.

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

Goodwill represents a significant portion of our total assets. As of September 30, 2011, goodwill represented approximately \$97.4 million, or 26.6%, of our total assets.

We test our goodwill for impairment using a two-step approach. The first step is conducted utilizing the multiple of earnings approach and comparing the carrying value of our reporting units to their implied fair value. If necessary, the second step is conducted utilizing a discounted cash flow approach and comparing the carrying value of our reporting units to their estimated fair value.

At December 31, 2010, we tested our goodwill for impairment and determined that an impairment of approximately \$6.2 million existed for three of our reporting units. No other reporting unit's carrying goodwill amount exceeded or approximated its implied value.

We concluded that the decrease in our market capitalization as of September 30, 2011 was a triggering event and accordingly we tested goodwill and indefinite lived intangibles for impairment. Our tests indicated that five of our reporting units were impaired which resulted in an expense of \$9.4 million in the third quarter of 2011. In addition, we also recorded an impairment charge of \$1.0 million in the third quarter of 2011 due to a regional accreditation indefinite intangible asset that is no longer being utilized.

**Bonus costs.** We accrue the estimated cost of our bonus programs using current financial and statistical information as compared to targeted financial achievements and key performance objectives. Although 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.

### Effect of Inflation

Inflation has not had a material effect on our operations.

### Results of Operations

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Educational services and facilities	46.5%	37.9%	43.1%	38.2%
Selling, general and administrative	49.2%	42.8%	48.5%	44.8%
Impairment of goodwill and other intangibles	8.4%	0.0%	2.6%	0.0%
Total costs and expenses	104.1%	80.7%	94.2%	83.0%
Operating (loss) income	-4.1%	19.3%	5.8%	17.0%
Interest expense, net	-0.9%	-0.6%	-0.8%	-0.7%
(Loss) income before income taxes	-5.0%	18.7%	5.0%	16.3%
(Benefit) provision for income taxes	-1.8%	7.4%	2.1%	6.5%
Net (loss) income	-3.2%	11.3%	2.9%	9.8%

### Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

**Revenue.** Revenue decreased by \$43.7 million, or 26.2%, to \$123.5 million for the quarter ended September 30, 2011 from \$167.2 million for the quarter ended September 30, 2010. This decrease was primarily attributable to a 28.9% decrease in average student population to 22,712 for the quarter ended September 30, 2011, from 31,952 for the quarter ended September 30, 2010.

The decrease in average student population was due to adjustments in our business model to be better aligned with the Department of Education's increased emphasis on student outcomes and our efforts to comply with the 90/10 rule and cohort default rates. As part of these measures we implemented a more selective student enrollment policy to ensure that we enroll students that demonstrate a strong ability to achieve successful student outcomes, including higher graduation rates, repayment rates and lower student debt levels. We also restructured certain programs and altered program offerings at some of our campuses which resulted in lower financial aid funding availability and higher student cash contributions. These changes, coupled with the current economic conditions, which we believe are resulting in an increase in the number of potential students who are hesitant to take on debt, have resulted in a significant decline in student starts at these campuses. We believe these changes will lead to improvement in our 90/10 ratios and cohort default rates and facilitate our compliance with the 90/10 rule.

Average revenue per student increased 3.9% for the quarter ended September 30, 2011 from the quarter ended September 30, 2010, primarily from tuition increases which ranged from 3% to 5% annually and from changes to some of our program offerings which shortened the delivery time of these programs and slightly accelerated revenue. For a general discussion of trends in our student enrollment, see "Seasonality and Trends" below.

**Educational services and facilities expenses.** Our educational services and facilities expenses decreased by \$5.9 million, or 9.3%, to \$57.4 million for the quarter ended September 30, 2011 from \$63.3 million for the quarter ended September 30, 2010. This decrease in educational services and facilities expenses was due to a \$3.9 million, or 11.9% decrease in instructional expenses, a \$3.1 million, or 28.5% and a decrease in books and tools expense, offset by a \$1.2 million, or 19.7%, increase in facilities expense primarily related to higher depreciation expense.

The decrease in instructional expenses was primarily due to a reduction in the number of instructors at most of our campuses resulting from a lower student population. The decrease in books and tools expense was attributable to a reduction in average student population resulting from a decline in student starts of approximately 4,500 for the quarter ended September 30, 2011, compared to the quarter ended September 30, 2010, as well as the timing of class starts. Facilities expense increased from depreciation expense due to capital expenditures in 2010.

We strive to align our expenses throughout the year to our student population. As our population increases or decreases, we align our personnel and our expenses to the extent possible to meet the needs of our existing population.

As a result of the foregoing, educational services and facilities expenses, as a percentage of revenue, increased to 46.5% for the quarter ended September 30, 2011 from 37.9% for the quarter ended September 30, 2010.

***Selling, general and administrative expenses.*** Our selling, general and administrative expenses for the quarter ended September 30, 2011 were \$60.7 million, a decrease of \$10.8 million, or 15.1%, from \$71.5 million for the quarter ended September 30, 2010. The decrease in our selling, general and administrative expenses was primarily due to a \$7.4 million, or 19.3%, decrease in administrative expenses and a \$3.0 million, or 11.3%, decrease in sales and marketing.

The decrease in administrative expenses was primarily due to a \$3.3 million reduction in bad debt expense and a \$4.5 million reduction in compensation and benefits. These reductions were partially offset by \$0.4 million of additional administration expenses at our three new campuses.

The decrease in sales and marketing expenses during the quarter ended September 30, 2011 was primarily due to a decrease in sales compensation and benefits expenses of \$2.1 million. In addition, we aligned our marketing expenses to meet the capacity of our reduced sales force which resulted in a reduction of \$0.6 million for the quarter.

We strive to align our expenses throughout the year to our student population. As our population increases or decreases, we align our personnel and our expenses to the extent possible to meet the needs of our existing population.

As a percentage of revenues, selling, general and administrative expenses for the quarter ended September 30, 2011 increased to 49.2% from 42.8% for the quarter ended September 30, 2010.

Our bad debt expense as a percentage of revenue was 7.8% for the quarter ended September 30, 2011, essentially flat as compared to 7.7% for the same period in 2010. The number of days revenue outstanding at September 30, 2011 decreased to 19.4 days, compared to 24.7 days at September 30, 2010. As of September 30, 2011, we had outstanding loan commitments to our students of \$26.7 million as compared to \$16.7 million at June 30, 2011. Loan commitments, net of interest that would be due on the loans through maturity, were \$20.9 million at September 30, 2011 as compared to \$14.4 million at June 30, 2011. The increase in loan commitment during the quarter is attributable to changes we made to certain programs to create financing gaps for our students to better enable us to comply with the 90/10 Rule.

***Impairment of goodwill and long-lived assets.*** At September 30, 2011, we tested our goodwill and long-lived assets for impairment and determined that an impairment of approximately \$10.4 million existed for five reporting units. The impairment of goodwill was triggered by a decrease in our market capitalization. The impairment of long-lived assets was due to a regional accreditation indefinite intangible asset that is no longer being utilized.

***Net interest expense.*** Our net interest expense for the quarter ended September 30, 2011 was \$1.1 million, essentially flat compared to the quarter ended September 30, 2010.

***Income taxes.*** Our benefit for income taxes for the quarter ended September 30, 2011 was \$2.2 million, or 35.9% of pretax loss, compared to a provision for income taxes of \$12.4 million, or 39.7% of pretax income for the quarter ended September 30, 2010. The effective tax rate benefit decreased compared to the provision due to \$1.4 million of nondeductible goodwill impairment charges.

#### **Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

***Revenue.*** Revenue decreased by \$75.4 million, or 16.0%, to \$397.1 million for the nine months ended September 30, 2011 from \$472.5 million for the nine months ended September 30, 2010. This decrease was primarily attributable to a 19.1% decrease in average student population to 25,291 for the nine months ended September 30, 2011, from 31,263 for the nine months ended September 30, 2010.

The decrease in average student population was due to adjustments in our business model to be better aligned with the Department of Education's increased emphasis on student outcomes and our efforts to comply with the 90/10 rule and cohort default rates. As part of these measures we implemented a more selective student enrollment policy to ensure that we enroll students that demonstrate a strong ability to achieve successful student outcomes, including higher graduation rates, repayment rates and lower student debt levels. We also restructured certain programs and altered program offerings at some of our campuses which resulted in lower financial aid funding availability and higher student cash contributions. These changes, coupled with the current economic conditions, which we believe are resulting in an increase in the number of potential students who are hesitant to take on debt, have resulted in a significant decline in student starts at these campuses. We believe these changes will lead to improvement in our 90/10 ratios and cohort default rates and facilitate our compliance with the 90/10 rule.

Average revenue per student increased 3.9% for the nine months ended September 30, 2011 from the nine months ended September 30, 2010, primarily from tuition increases which ranged from 3% to 5% annually and from changes to some of our program offerings which shortened the delivery time of these programs and slightly accelerated revenue. For a general discussion of trends in our student enrollment, see "Seasonality and Trends" below.

**Educational services and facilities expenses.** Our educational services and facilities expenses decreased by \$9.2 million, or 5.1%, to \$171.1 million for the nine months ended September 30, 2011 from \$180.3 million for the nine months ended September 30, 2010. This decrease in educational services and facilities expenses was due to a \$7.6 million, or 29.3%, decrease in books and tools expense, a \$3.4 million, or 3.5%, decrease in instructional expenses and a \$0.4 million, or 1.0%, decrease in facilities expense offset by a \$2.1 million, or 11.6% increase in depreciation expense.

The decrease in books and tools expense was attributable to a reduction in average student population resulting from a reduction in student starts of approximately 12,100 for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010. The decrease in instructional expenses was primarily due to a reduction in the number of instructors at most of our campuses resulting from lower student population as well as lower classroom equipment and furniture expenses.

Facilities expense partially decreased as a result of rent savings in connection with two relocated campuses in 2010 partially offset by facility expenses at our new campuses. The increase in depreciation expense was due to higher capital expenditures during 2010.

We strive to align our expenses throughout the year to our student population. As our population increases or decreases, we align our personnel and our expenses to the extent possible to meet the needs of our existing population.

As a result of the foregoing, educational services and facilities expenses, as a percentage of revenue, increased to 43.1% for the nine months ended September 30, 2011 from 38.2% for the nine months ended September 30, 2010.

**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the nine months ended September 30, 2011 were \$192.9 million, a decrease of \$18.6 million, or 8.8%, from \$211.5 million for the nine months ended September 30, 2010. This decrease in our selling, general and administrative expenses was primarily due to a \$13.3 million, or 11.7%, decrease in administrative expenses and a \$5.4 million, or 6.9%, decrease in sales and marketing.

The decrease in administrative expenses during the nine months ended September 30, 2011 was primarily due to a \$7.6 million reduction in bad debt expense and a \$7.3 million reduction in compensation and benefits, partially offset by \$1.2 million of additional administration expenses at our three new campuses.

The decrease in sales and marketing expenses during the nine months ended September 30, 2011 was primarily due to a decrease in sales compensation and benefits expenses of \$2.2 million. In addition, we aligned our marketing expenses to meet the capacity of our reduced sales force which resulted in a reduction of \$2.3 million for the nine months ended September 30, 2011.

Student services expenses was essentially flat for the nine months ended September 30, 2011 compared to the same period in 2010 due to higher student services expenses at our three new campuses offset by lower annual compensation costs.

We strive to align our expenses throughout the year to our student population. As our population increases or decreases, we align our personnel and our expenses to the extent possible to meet the needs of our existing population.

As a percentage of revenues, selling, general and administrative expenses for the nine months ended September 30, 2011 increased to 48.5% from 44.8% for the nine months ended September 30, 2010.

Our bad debt expense as a percentage of revenue was 6.0% for the nine months ended September 30, 2011 as compared to 6.6% for the same period in 2010. The reduction in bad debt as a percentage of revenue reflects our improved financial aid packaging process, which resulted in more timely processing of financial aid and greater cash collections. The number of days revenue outstanding at September 30, 2011 decreased to 17.9 days, compared to 25.9 days at September 30, 2010. As of September 30, 2011, we had outstanding loan commitments to our students of \$26.7 million as compared to \$17.3 million at December 31, 2010. Loan commitments, net of interest that would be due on the loans through maturity, were \$20.9 million at September 30, 2011 as compared to \$15.4 million at December 31, 2010. The increase in loan commitment during the quarter is attributable to changes we made to certain programs to create financing gaps for our students to better enable us to comply with the 90/10 Rule.

**Impairment of goodwill and long-lived assets.** At September 30, 2011, we tested our goodwill and long-lived assets for impairment and determined that an impairment of approximately \$10.4 million existed for five reporting units. The impairment of goodwill was triggered by a decrease in our market capitalization. The impairment of long-lived assets was due to a regional accreditation indefinite intangible asset that is no longer being utilized.

**Net interest expense.** Our net interest expense for the nine months ended September 30, 2011 was \$3.3 million, essentially flat compared to the nine months ended September 30, 2010.

**Income taxes.** Our provision for income taxes for the nine months ended September 30, 2011 was \$8.2 million, or 41.8% of pretax income, compared to \$30.8 million, or 39.8% of pretax income for the nine months ended September 30, 2010. The effective tax rate increased due to \$1.4 million of nondeductible goodwill impairment charges for the nine months ended September 30, 2011.

### Liquidity and Capital Resources

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

The following chart summarizes the principal elements of our cash flows (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Net cash provided by operating activities	\$ 27,173	\$ 68,077
Net cash used in investing activities	\$ (30,121)	\$ (33,617)
Net cash used in financing activities	\$ (36,914)	\$ (66,106)

At September 30, 2011, we had cash and cash equivalents of \$26.1 million, representing a decrease of approximately \$39.9 million as compared to \$66.0 million as of December 31, 2010. This decrease is primarily due to the repayment of \$20.0 million of borrowings under our credit facility during the first quarter of 2011 as well as the payment of dividends amounting to \$16.9 million. Historically, we have financed our operating activities and organic growth primarily through cash generated from operations. We have financed acquisitions primarily through borrowings under our credit facility and cash generated from operations. We currently anticipate that we will be able to meet both our short-term cash needs, as well as our need to fund operations and meet our obligations beyond the next twelve months with cash generated by operations, existing cash balances and, if necessary, borrowings under our credit facility. In addition, we may also consider accessing the financial markets in the future as a source of liquidity for capital requirements, acquisitions and general corporate purposes to the extent such requirements are not satisfied by cash on hand, borrowings under our credit facility or operating cash flows. However, we cannot assure you that we will be able to raise additional capital on favorable terms, if at all. At September 30, 2011, we had net borrowings available under our \$115 million credit agreement of approximately \$114.5 million, including a \$24.5 million sub-limit on letters of credit. The credit agreement matures on December 1, 2012. As of September 30, 2011, we had no amounts outstanding under our credit agreement. As of September 30, 2011, we had outstanding letters of credit aggregating \$0.5 million which is primarily comprised of letters of credit for the DOE matters and security deposits in connection with certain of our real estate leases.

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 83% of our cash receipts relating to revenues in 2010. Students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other funding are not subject to a 30-day delay. Our programs range from 22 to 284 weeks. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV financial aid is refunded according to state and federal regulations.

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, 2010.

### ***Operating Activities***

Net cash provided by operating activities was \$27.2 million for the nine months ended September 30, 2011 as compared to \$68.1 million for nine months ended September 30, 2010. The \$40.9 million decrease in net cash provided by operating activities primarily resulted from a reduction in net income of approximately \$35.2 million and other working capital items partially offset by an increase in prepaid tax payments of \$9.3 million during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

### ***Investing Activities***

Net cash used in investing activities decreased by \$3.5 million to \$30.1 million for the nine months ended September 30, 2011 from \$33.6 million for the nine months ended September 30, 2010. The decrease was primarily attributable to a \$2.6 million reduction in cash used for capital expenditures for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. Our 2011 capital expenditures mainly resulted from leasehold improvements, facility expansions and relocations as well as investments in campuses, classroom furniture and shop technology.

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. Although our current growth strategy is to continue our organic growth, strategic acquisitions of operations will be considered. To the extent that these potential strategic acquisitions are large enough to require financing beyond available cash from operations and borrowings under our credit facilities, we may incur additional debt and/or issue additional debt or equity securities.

Capital expenditures are expected to range from 7% to 9% of revenues in 2011 and we expect to fund these capital expenditures with cash generated from operating activities and, if necessary, with borrowings under our credit facility.

### ***Financing Activities***

Net cash used in financing activities decreased by \$29.2 million to \$36.9 million for the nine months ended September 30, 2011, from \$66.1 million for the nine months ended September 30, 2010. This decrease was primarily attributable to our purchase of \$50.0 million of our common stock during 2010. This was partially offset by our payment of \$16.9 million of dividends during the nine months ended September 30, 2011 and a \$3.6 million reduction in proceeds from the exercise of stock options and tax benefit associated with share based awards during the nine months ended September 30, 2011 as compared to the same period in 2010.

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

Amounts borrowed as revolving loans under the credit facility will bear interest, at our option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations, or the "Euro Dollar Rate," for specified interest periods or (ii) the Base Rate (as defined in the credit agreement), in each case, plus an applicable margin rate as determined under the credit agreement. The "Base Rate," as defined under the credit agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one-month of the Euro Dollar Rate plus 1.0%. Under the credit agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in our consolidated leverage ratio and depending on whether we have chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At September 30, 2011, we had outstanding letters of credit aggregating \$0.5 million which is primarily comprised of letters of credit for the DOE matters and security deposits in connection with certain of our real estate leases.

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

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

	September 30, 2011	December 31, 2010
Credit agreement	\$ -	\$ 20,000
Finance obligation	9,672	9,672
Capital lease-property (a rate of 8.0%)	26,837	26,986
Capital leases-equipment (rates ranging from 5.0% to 8.5%)	128	287
Subtotal	36,637	56,945
Less current maturities	(510)	(437)
Total long-term debt	\$ 36,127	\$ 56,508

We believe that our working capital, cash flows from operations, access to operating leases and borrowings available from our credit agreement will provide us with adequate resources for our ongoing operations through 2012 as well as our currently identified and planned capital expenditures.

### Contractual Obligations

**Long-term Debt.** As of September 30, 2011, 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 September 30, 2011 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Capital leases (including interest)	\$ 55,820	\$ 2,649	\$ 5,004	\$ 5,004	\$ 43,163
Uncertain income taxes	100	100	-	-	-
Operating leases	171,342	23,497	43,691	36,663	67,491
Rent on finance obligation	7,683	1,463	2,927	2,927	366
Total contractual cash obligations	\$ 234,945	\$ 27,709	\$ 51,622	\$ 44,594	\$ 111,020

### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2011, except for our letters of credit of \$0.5 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.

### Update Regarding Regulatory Matters

Our schools are subject to audits, program reviews, and site visits by various regulatory agencies, including the DOE, the DOE's Office of Inspector General, state education agencies, student loan guaranty agencies, the U.S. Department of Veterans Affairs and our accrediting commissions. In addition, each of our institutions must retain an independent certified public accountant to conduct an annual audit of the institution's administration of Title IV Program funds. The institution must submit the resulting audit report to the DOE for review.

On July 11, 2011, the DOE notified our Grand Prairie, Texas campus that an on-site Program Review was scheduled to begin on July 25, 2011. The Program Review assessed the institution's administration of the Title IV, HEA programs in which it participates for the 2010-2011 award year. The Program Review concluded on July 28, 2011. The DOE issued an Expedited Final Program Review Determination Letter dated August 31, 2011, that closed the Program Review without the need for additional information from the Grand Prairie, Texas campus. No monetary liabilities were asserted in the Expedited Final Program Review Determination Letter.



On August 17, 2011, the DOE notified our Philadelphia, Pennsylvania (Center City) campus that an on-site Program Review was scheduled to begin on September 7, 2011. The Program Review assessed the administration of the Title IV, HEA programs in which the campus participates for the 2009-2010 and 2010-2011 award years. The Program Review concluded on September 9, 2011. The DOE issued a Program Review Report dated October 14, 2011. The report cited five areas of non-compliance. The DOE Program Review Report requires the school to revise its policies governing these areas of non-compliance and submit a copy of any changes in its response to the Program Review Report. There are no open liabilities.

On July 15, 2011, the Texas Workforce Commission (“TWC”) notified our Grand Prairie, Texas campus that TWC intended to place the campus on a conditional certificate effective July 30, 2011, because two of its educational programs did not meet the minimum rate of employment for the 2008-2009 and 2009-2010 reporting years. If the two programs did not meet the minimum rate of employment for the 2010-2011 reporting period, which is reported to TWC on December 1, 2011, TWC would revoke the approval of the programs and require the campus to cease new enrollments in the two programs and to teach-out the remaining students. On September 9, 2011, TWC notified our Grand Prairie, Texas campus that it would be rescinding the action described in TWC’s correspondence dated July 15, 2011 and was developing rules relating to corrective actions needed for programs failing to meet TWC’s minimum rate of employment.

## **Seasonality and Trends**

### ***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 and fourth quarters and student attrition in the first half of the year. Our second half growth is largely dependent on a successful high school recruiting season. We recruit our high school students several months ahead of their scheduled start dates, and thus, while we have visibility on the number of students who have expressed interest in attending our schools, we cannot predict with certainty the actual number of new student enrollments and the related impact on revenue. Our expenses, however, 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 ensure that we meet our second half of the year targets and, as a result, such expenses do not fluctuate significantly on a quarterly basis. To the extent new student enrollments, and related 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.

### ***90/10 Rule***

The Higher Education Opportunity Act, which we refer to as the HEA or the Act, enacted in 2008, states that a proprietary institution will be ineligible to participate in Title IV programs if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue from Title IV programs. This is commonly known as the “90/10 Rule.”

We have calculated that, for our 2010 fiscal year, our institutions’ 90/10 Rule percentages ranged from 62.1% to 96.9%. Our Dayton institution (consisting of a main campus and six additional locations) had a 90/10 Rule percentage of 96.9% and was our only institution with a 90/10 Rule percentage above 90%. For 2009 and 2008, none of our institutions derived more than 90% of their revenues from Title IV Programs. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenues from Title IV Programs for any fiscal year.

Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the Federal Family Education Loan Program, or FFEL, increased. This loan limit increase, coupled with increases in grants from the Pell program and other Title IV loan limits, will result in some of our schools experiencing an increase in the revenues they receive from the Title IV programs. The HEA reauthorization provided temporary relief from the impact of the loan limit increases by counting as non-Title IV revenue in the 90/10 Rule calculation amounts received from loans received between July 1, 2008 and June 30, 2011 that are attributable to the increased annual loan limits. The temporary relief under the HEA for calculating 90/10 Rule compliance expired for loans received on or after July 1, 2011 and is scheduled to expire for institutional loans made on or after July 1, 2012.



The HEA authorization also provided other relief by allowing institutions to include as non-Title IV revenue in its 90/10 Rule calculation the net present value of certain institutional loans subject to certain limitations and conditions. During 2010 and continuing into the first half of 2011, we had seen a reduction in the loan commitments we offer our students to help them bridge the gap between the tuition charged for their particular program and the amount of grants, third-party loans and parental assistance each student receives. We believe that those reductions were due to increases in student loan limits available to students as well as an increase in Pell Grants. As a result, a greater percentage of students were able to finance their educations entirely from financial aid sources. While this provided greater opportunities for our students, it also severely impacted our ability to comply with the 90/10 Rule. Because of the increases in Title IV student loan limits and grants in recent years, it has and will continue to be difficult for us to comply with the 90/10 Rule. We have considered two alternatives to aid us with our compliance with the 90/10 Rule: increasing tuition prices above the applicable maximums for Title IV student loans and grants or restructuring certain of our programs financing gap. We decided to restructure program offerings. This resulted in increasing the financing gaps between tuition and the amount of financial aid available. To assist our students in closing their financing gaps we provided loans to our students. Loan commitments to our students increased during the third quarter of 2011 by approximately \$10 million. If any of our institutions loses eligibility to participate in Title IV programs, that loss would cause an event of default under our credit agreement, and would also adversely affect our students' access to various government-sponsored student financial aid programs, which could have a material adverse effect on the rate at which our students enroll in our programs and on our business and results of operations.

### ***Cohort Default Rates***

The Act limits participation in the Title IV Programs by institutions whose former students defaulted on the repayment of federally guaranteed or funded student loans above a prescribed rate ("cohort default rate"). The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults.

Under the Higher Education Act, an institution whose Federal Stafford Loan and Federal Direct Loan cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the Federal Stafford Loan, Federal Direct Loan, and Pell programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose Federal Stafford Loan and Federal Direct Loan cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the Federal Family Education Loan and Federal Direct Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's cohort default rate equals or exceeds 25% in any of its three most recent fiscal years, the institution may be placed on provisional certification status.

The Act increased the measuring period for each cohort default rate calculation by one year. Starting with the 2009 cohort, the DOE will calculate both the current two-year and the new three-year cohort default rates. Beginning with the 2011 three-year cohort default rate, which is expected to be published for each of our institutions in September 2014, the three-year rates will be applied for purposes of measuring compliance with the requirements instead of the two-year rates currently used for those purposes. If the 2011 three-year cohort default rate exceeds 40%, the institution will cease to be eligible to participate in the Federal Direct Loan and Federal Stafford Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If the institution's three-year cohort default rate exceeds 30% (an increase from the current 25% threshold applicable to the two-year cohort default rates) for three consecutive years, beginning with the 2009 cohort, the institution will cease to be eligible to participate in the Pell, Federal Direct Loan, and Federal Stafford Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years.

On September 12, 2011, the DOE published final two-year cohort default rates for each of our institutions for the 2009 federal fiscal year, which rates range from 10.5% to 35.4%. As a result, five of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for the 2009 federal fiscal year. Our Philadelphia, PA, Grand Prairie, TX, Melrose Park, IL, Denver, CO and Somerville, MA institutions had cohort default rates over 25%. We have appealed our 2009 official rates. The cohort default rate for Grand Prairie at 35.29% would be the institution's second consecutive fiscal year cohort default rate of 25% or greater. None of the other four institutions with a rate of 25% or greater had a cohort default rate of 25% or greater for the 2008 fiscal year.

On February 4, 2011 the DOE released unofficial trial three-year cohort default rates for the 2008 federal fiscal year. These unofficial rates continue to be for informational purposes only and are calculated using the abovementioned methodology for calculating three-year cohort default rates. No benefits or sanctions apply to these trial rates. The rates for our institutions under the new methodology ranged from 10.6% to 37.0% for the 2006 federal fiscal year, from 16.2% to 42.2% for the 2007 federal fiscal year and from 19.3% to 47.5% for the 2008 federal fiscal year. In April 2011, the DOE released an announcement that it had miscalculated the unofficial trial three-year cohort default rates for the 2008 federal fiscal year and released corrected rates that range from 14.77% to 42.77%.

While we strive to improve the cohort default rates for each of our institutions, the current economic climate, combined with the demographics of the students that we traditionally serve, makes this objective even more challenging. As a result, we have significantly increased our default management personnel to help enhance the financial literacy of our students and graduates, with the goal of helping students stay current in their loan payments. We have also engaged third-party consultants to assist those institutions who have historically had the highest cohort default rates.

### ***Gainful Employment***

On June 13, 2011, the DOE published final regulations in the Federal Register regarding gainful employment that take effect on July 1, 2012 and apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. Such educational programs would include all of the Title IV-eligible educational programs at each of our institutions. The gainful employment regulations will, among other things, measure each educational program against threshold benchmarks in each of three debt measure categories: (1) an annual loan repayment rate, (2) an annual debt-to-annual earnings ratio, and (3) an annual debt-to-discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the regulations, and are based on data that may not be readily accessible to institutions. If an educational program fails to achieve threshold rates in all three categories for one federal fiscal year (beginning with debt measures calculated for the 2012 federal fiscal year), the institution must, among other things, disclose the amount by which the program missed the minimum acceptable performance and the institution's plan to improve the program. If an educational program fails to achieve threshold rates in all three categories in two out of three federal fiscal years, the institution must, among other things, warn students in the failing program that they should expect difficulty in repaying their loans, disclose the options available to the student if the program loses eligibility for Title IV funds, and disclose resources available to research other educational options and compare program costs. If an educational program fails to achieve threshold rates in all three categories in three out of four federal fiscal years, the program loses its Title IV eligibility for a period of at least three years. We have analyzed the available data to assess the potential impact of the new gainful employment regulations on each of our institutions and educational programs. Although we have not identified to date any material number of educational programs that we believe are likely to lose eligibility under the new regulations' threshold benchmarks, if the data were to change unfavorably, the new regulations could nonetheless have a material adverse effect on our business and operations by requiring us to eliminate certain educational programs, and the new disclosure requirements and related components of the new regulations could have a material adverse effect on the rate at which students enroll in our programs.

### ***ATB Students***

We have reduced the number of "ability to benefit", or ATB, students, enrolled at our institutions by raising the mandatory minimum test scores for these students as well as requiring that all ATB students attend a multi-day orientation program prior to commencing their chosen academic program. ATB students are non-GED and non-high school graduates who are allowed to enroll in post-secondary institutions by passing a Department of Education approved exam. ATB students are traditionally a higher risk population who complete their programs at a lower rate and default on their student loans at a higher rate than non-ATB students. As of September 30, 2011, approximately 6% of our students were classified as ATB students.

While we are hopeful that these actions will lower the cohort default rates of our institutions as well as improve our outcomes (such as increased graduation and completion rates), the reduction in ATB students has and is expected to negatively impact our total enrollment.

### ***Outlook***

In addition to the 90/10 Rule, Cohort Default Rates, Gainful Employment and limits on the number of ATB students discussed above, changes to admissions advisor compensation policies, other changes promulgated by the DOE and the current economic slowdown have all led to deteriorating student enrollments since the second quarter of 2010. This has resulted in a decline in student starts for the first nine months of 2011 of 39.5% compared to the same period in 2010. We believe that the decline in student starts as compared to prior-year periods will improve but we cannot accurately predict to what degree. Our expectation is based on the fact that we opened three new campuses in 2011 and are expanding the program offerings at our relocated Denver campus, which we expect to contribute to starts as well as more favorable year-over-year student start comparisons during this period.

For the first nine months of 2011, our actual results have not met our expectations and the rate of decline in student starts continues to be challenging. As we enter the fourth quarter of the year we still expect the rate of deceleration to improve but we have limited visibility and thus we cannot predict the number that will ultimately enroll. While we expect enrollments to improve, if they do not, our revenue could decline further, which could have a material adverse effect on our profitability.

In addition, these changes, individually or in the aggregate, may impact our student enrollment, persistence and retention in ways that we cannot now predict and could adversely affect our business, financial condition, results of operations and cash flows.

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

We are exposed to certain market risks as part of our on-going business operations. We have a credit agreement with a syndicate of banks. Our obligations under the credit agreement are secured by a lien on substantially all of our assets and our subsidiaries and any assets that we or our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock. Outstanding borrowings bear interest at the rate of 4.75% (as calculated in the credit agreement) as of September 30, 2011. As of September 30, 2011, we had no outstanding borrowings under our credit agreement.

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

**Item 4. CONTROLS AND PROCEDURES**

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

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

**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.

We and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that we and the other defendants made false and misleading statements and failed to disclose material adverse facts about our business and prospects in violation of federal securities laws. The plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, *Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al.*, and *Robert Lyathaud v. Lincoln Educational Services Corp., et al.* On November 24, 2010, the Court consolidated the two actions under the caption *In re Lincoln Educational Services Corp. Securities Litigation* and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011. On April 15, 2011, defendants filed a motion to dismiss all of the claims asserted therein. On September 6, 2011, the Court entered an order granting defendants' motion to dismiss the consolidated amended complaint with prejudice. As of the date of this filing, plaintiffs have not filed a notice of appeal.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned *Mike Schweertmann v. David F. Carney, et al.* The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned *Gregory and Karen Lehner v. Shaun E. McAlmont, et al.* The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned *Steven C. Lloyd and Paul Stone v. David F. Carney, et al.* All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On October 18, 2011, the parties to the *Schweertmann* action filed with the Court a stipulation of voluntary dismissal of the action without prejudice, which the Court ordered on October 24, 2011. On October 21, 2011, plaintiffs in the *Lloyd* action filed a notice of voluntary dismissal of the action without prejudice, which the Court ordered on October 26, 2011.

We believe the lawsuits are without merit and intend to vigorously defend against them.

On May 18, 2011, we received a subpoena duces tecum from the Attorney General of the State of New York relating to their investigation of whether we and certain of our academic institutions have complied with certain New York state consumer protection, securities and finance laws. Pursuant to the subpoena duces tecum, the Attorney General has requested from us and certain of our academic institutions documents and detailed information for the time period May 17, 2005 to the present.

## Item 1A. RISK FACTORS

### **Changes in the laws applicable to Title IV Programs could reduce our student population, revenues and profit margin.**

On April 15, 2011, President Obama signed H.R. 1473, the Full-Year Continuing Resolution which funds the federal government for the remainder of the 2011 fiscal year. This Continuing Resolution, among other things, permanently repeals the year-round Pell Grant beginning with the 2011-2012 award year. The year-round program had allowed students in accelerated programs to obtain two Pell Grants in a single award year. As a result of the repeal, students may obtain only one Pell Grant per award year. This change may impact our students' ability to finance their education and/or affect their decision to attend our institutions, which could have a material adverse effect on our business and results of operations.

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

The DOE published two Notices of Proposed Rulemaking in the Federal Register in June 2010 and July 2010 which proposed new regulations related to Title IV program integrity issues. The DOE issued final regulations on October 29, 2010 addressing each of these topics, except for regulations imposing additional eligibility requirements on educational programs subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. The topics covered in the final regulations published on October 29, 2010, which have a general effective date of July 1, 2011, include, but are not limited to: revisions to the incentive compensation rule, significant expansion of the notice and approval requirements for adding new academic programs and new reporting and disclosure requirements for such programs, the definition of high school diploma for the purpose of establishing institutional eligibility to participate in the Title IV programs and student eligibility to receive Title IV aid, ability to benefit students, misrepresentation of information provided to students and prospective students, incentive compensation, state authorization as a component of institutional eligibility, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The topics covered in the October 2010 final regulations also include a new federal definition of a "credit hour" for federal student aid purposes, which new definition may result in changes to the number of credit hours awarded for certain of our educational programs and in changes to the amount of federal student aid available to students enrolled in such programs. The implementation of all of the October 2010 final regulations has required us to change our practices to comply with these requirements. The implementation of these regulatory changes could continue to have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations.

On June 13, 2011, the DOE published final regulations regarding gainful employment. The regulations take effect on July 1, 2012 and apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation, which will include all of the Title IV-eligible educational programs at each of our institutions. The gainful employment regulations will, among other things, measure each educational program against threshold benchmarks in each of three debt measure categories: (1) an annual loan repayment rate, (2) an annual debt-to-annual earnings ratio, and (3) an annual debt-to-discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the regulations, and will be based on data that may not be readily accessible to institutions. If an educational program fails to achieve threshold rates in all three categories for one federal fiscal year (beginning with debt measures calculated for the 2012 federal fiscal year), the institution must, among other things, disclose the amount by which the program missed the minimum acceptable performance and the institution's plan to improve the program. If an educational program fails to achieve threshold rates in all three categories in two out of three federal fiscal years, the institution must, among other things, warn students in the failing program that they should expect difficulty in repaying their loans, disclose the options available to the student if the program loses eligibility for Title IV funds, and disclose resources available to research other educational options and compare program costs. If an educational program fails to achieve threshold rates in all three categories in three out of four federal fiscal years, the program loses its Title IV eligibility for a period of at least three years. We have analyzed the available data to assess the potential impact of the new gainful employment regulations on each of our institutions and educational programs. Although we have not identified to date any material number of educational programs that we believe are likely to lose eligibility under the new regulations' threshold benchmarks, if the data were to change unfavorably, the new regulations could nonetheless have a material adverse effect on our business and operations by requiring us to eliminate certain educational programs, and the new disclosure requirements and related components of the new regulations could have a material adverse effect on the rate at which students enroll in our programs.

**Item 6. EXHIBITS**

## EXHIBIT INDEX

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Company (1).
3.2	Amended and Restated By-laws of the Company (2).
4.1	Management Stockholders Agreement, dated as of January 1, 2002, by and among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Stockholders and other holders of options under the Management Stock Option Plan listed therein (1).
4.2	Assumption Agreement and First Amendment to Management Stockholders Agreement, dated as of December 20, 2007, by and among Lincoln Educational Services Corporation, Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Management Investors parties therein (3).
4.3	Registration Rights Agreement, dated as of June 27, 2005, between the Company and Back to School Acquisition, L.L.C. (2).
4.4	Specimen Stock Certificate evidencing shares of common stock (1).
10.1	Credit Agreement, dated as of December 1, 2009, among the Company, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Bank of America, N.A., as Administrative Agent (6).
10.2	Consulting Agreement, dated December 9, 2010, between the Company and David F. Carney (9).
10.3	Employment Agreement, dated as of January 17, 2011, between the Company and Scott M. Shaw (10).
10.4	Employment Agreement, dated as of January 17, 2011, between the Company and Cesar Ribeiro (10).
10.5	Employment Agreement, dated as of January 17, 2011, between the Company and Shaun E. McAlmont (10).
<a href="#">10.6*</a>	Employment Agreement, dated as of November 1, 2011, between the Company and Piper Jameson.
10.7	Lincoln Educational Services Corporation 2005 Long-Term Incentive Plan (1).
10.8	Lincoln Educational Services Corporation 2005 Non-Employee Directors Restricted Stock Plan (1).
10.9	Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (1).
10.10	Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002 (1).
10.11	Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants (1).
10.12	Form of Stock Option Agreement under our 2005 Long-Term Incentive Plan (4).
10.13	Form of Restricted Stock Agreement under our 2005 Long-Term Incentive Plan (4).
10.14	Form of Performance-Based Restricted Stock Agreement under our Amended and Restated 2005 Long-Term Incentive Plan (11).
10.15	Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors (1).

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10.16	Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, UGPE Partners Inc. and Merion Investment Partners, L.P (5).
10.17	Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, UGP Education Partners, LLC, Merion Investment Partners, L.P. and, for certain limited purposes only, UGPE Partners, Inc. (5).
10.18	Stock Repurchase Agreement, dated as of December 15, 2009, among Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C (7).
<a href="#">31.1 *</a>	Certification of President & Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2 *</a>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32 *</a>	Certification of President & Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements from Lincoln Educational Services Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed on November 8, 2011, formatted in XBRL: (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-123664).
- (2) Incorporated by reference to the Company's Form 8-K filed June 28, 2005.
- (3) Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-148406).
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.
- (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2008.
- (6) Incorporated by reference to the Company's Form 8-K filed December 7, 2009.
- (7) Incorporated by reference to the Company's Form 8-K filed December 21, 2009.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.
- (9) Incorporated by reference to the Company's Form 8-K filed December 9, 2010.
- (10) Incorporated by reference to the Company's Form 8-K filed January 21, 2011.
- (11) Incorporated by reference to the Company's Form 8-K filed May 5, 2011.

\* Filed herewith.

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

**SIGNATURES**

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

**LINCOLN EDUCATIONAL SERVICES  
CORPORATION**

Date: November 8, 2011

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

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of November 1, 2011, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Piper P. Jameson (the "Executive").

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective as of the date hereof (the "Effective Date").

2. EMPLOYMENT AND DUTIES

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

2.2 Term of Employment. The Executive's employment under this Agreement shall terminate on December 31, 2012, unless terminated earlier pursuant to Section 5 or extended pursuant to Section 6.1 (the "Employment Period").

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

3. COMPENSATION

3.1 Base Salary. Subject to the provisions of Sections 5 and 6, the Executive shall be entitled to receive a base salary (the "Base Salary") at a rate of \$310,000 per annum during the Employment Period, such rate to be effective as of November 1, 2011. Such rate may be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in their sole discretion. The Base Salary shall be paid in equal installments on a biweekly basis or in accordance with the Company's current payroll practices, less all required deductions. The Base Salary shall be pro-rated for any period of service less than a full year.

3.2 Annual Bonus. Subject to the provisions of Sections 5 and 6, the Executive shall be eligible to earn an annual bonus for 2011 and each full calendar year thereafter during the Employment Period (the "Annual Bonus"), the amount of which shall be based upon performance targets or such other criteria that are determined by the Board or the Committee pursuant to the provisions of the Company's Key Management Team Incentive Compensation Plan (the "Incentive Plan") in effect for the applicable calendar year. The Company shall pay the Annual Bonus to the Executive no later than March 15 following the end of the applicable fiscal year. The Annual Bonus shall be prorated for any year in which the Executive's employment is terminated due to death or Disability (as defined in Appendix A). If during the Employment Period the Executive's employment is terminated by the Company (or any successor thereto) for Cause (as defined in Exhibit A) or the Executive resigns from his employment other than for Good Reason (as defined in Exhibit A) prior to the payout of any Annual Bonus due for a completed calendar, the Executive shall not receive such Annual Bonus.



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

#### 4. EMPLOYEE BENEFITS

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

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

#### 5. TERMINATION OF EMPLOYMENT

5.1 Effect of an Involuntary Termination. Subject to the provisions of Sections 6, 9.5 and 11.2, if during the Employment Period there is an "Involuntary Termination" (as defined below) of the Executive's employment, the Company shall pay to the Executive:

- (i) an amount equal to one and one-half times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination plus (y) the average of the Annual Bonuses paid to the Executive for the two years immediately prior to the year in which the Involuntary Termination occurs;
- (ii) all outstanding reasonable travel and other business expenses that he incurred as of the date of his termination;
- (iii) an additional cash amount equal to the Company's estimate of the employer portion of the premiums that would be necessary to continue the Executive's health care coverage until the first anniversary of the date of such Involuntary Termination; provided, however, that if prior to payment of such cash amount the Executive becomes covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company), such cash amount shall be prorated to cover only the period from the date of the Executive's Involuntary Termination until the date on which such alternate coverage starts; and

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

The Executive shall also be entitled to receive any other accrued compensation and benefits otherwise payable to him as of the date of his termination, including, without limitation, any Annual Bonus due for a completed calendar year. All payments made under Sections 5.1(a)(i), (ii) and (iii) above shall be made by the Company (or its successor) in a lump-sum amount no later than thirty days after the date of the Executive's termination of employment, and payment made under Section 5.1(iv) above shall be made by the Company (or its successor) in a lump-sum amount on the date that bonuses for the year in which the Executive's Involuntary Termination occurs are paid generally to the Company's senior executives (but no later than March 15<sup>th</sup> of the year following the year in which the Executive's Involuntary Termination occurs); provided, however, that the payment of such lump sum amounts shall be deferred for six months and one day following such termination to the extent necessary, as determined in the sole discretion of the Company (or its successor), to avoid the imposition on the Executive of additional tax, interest or penalties under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

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

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

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

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

- (ii) a prorated Bonus for the year of termination based on the Executive's target Annual Bonus for that year and the number of calendar days elapsed during the year through the date of the Executive's termination;
- (iii) all outstanding reasonable travel and other business expenses that the Executive incurred as of the date of his termination; and
- (iv) accrued but unpaid employee benefits set forth in Section 4.1 above as determined in accordance with the provisions of the applicable employee benefit plans or programs of the Company.

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

## 6. EFFECT OF A CHANGE IN CONTROL

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

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

6.3 Right of Termination. Notwithstanding anything to the contrary in this Agreement, during a thirty-day period commencing on the first anniversary of the date of the Change in Control, the Executive shall have the right to resign from his employment with the Company (or its successor) for any reason and receive an amount equal to (i) one times the amount of his Base Salary, as is then in effect, plus (ii) one times the average of the Annual Bonuses paid to the Executive for the two years immediately prior to the year in which such resignation occurs; provided, however, that, if such resignation constitutes an Involuntary Termination, Section 5.1 shall apply (in lieu of this Section 6.3). All payments made under this Section 6.3 shall be made by the Company (or its successor) in a lump-sum amount no later than thirty days after the date of the Executive's termination of employment; provided, however, that the payment of such lump sum shall be deferred for six months and one day following such termination to the extent necessary, as determined in the sole discretion of the Company (or its successor), to avoid the imposition on Executive of additional tax, interest or penalties under Section 409A of the Code.

7. REDUCTION OF PAYMENTS

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

8. NO ADDITIONAL RIGHTS

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

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive’s employment with the Company (or any successor thereto) and continuing for two years thereafter, the Executive shall not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, or participate in the ownership, management, operation or control of, or be employed by or connected in any manner with, any Competing Business, whether for compensation or otherwise; provided, however, that the Executive shall be permitted to hold, directly or indirectly, less than 1% of any class of securities of any entity that is listed on a national securities exchange or on the NASDAQ National Market System. Notwithstanding the foregoing, this Section 9.1 shall cease to apply upon the termination of the Executive’s employment with the Company (or any successor thereto) resulting from (i) an Involuntary Termination or (ii) the Executive’s resignation pursuant to Section 6.3. For purposes of this Agreement, “Competing Business” means any business within the United States that involves for-profit, post secondary education.

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

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

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

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

## 10. ARBITRATION

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

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

11. MISCELLANEOUS

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

if to the Company:  
200 Executive Drive, Suite 340  
West Orange, New Jersey 07052  
Attention: General Counsel

if to the Executive:  
200 Executive Drive, Suite 340  
West Orange, New Jersey 07052

11.2 Waiver and Release. As a condition to receiving the payments set forth in Section 5.1 or Section 6.3, as applicable, the Executive shall be required to execute and not revoke a Waiver and Release (relating to the Executive's release of claims against the Company Group) substantially in the form attached hereto as Appendix B.

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

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

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

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

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

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

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

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

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

**LINCOLN EDUCATIONAL SERVICES CORPORATION**

By: /s/ Shaun E. McAlmont

Name: Shaun E. McAlmont

Title: President & Chief Executive Officer

**EXECUTIVE**

/s/ Piper P. Jameson

Piper P. Jameson



## **APPENDIX A**

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

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

**“Change in Control”** shall mean:

- (a) when a “person” (as defined in Section 3(a)(9) of the Exchange Act), including a “group” (as defined in Section 13(d) and 14(d) of the Exchange Act), either directly or indirectly becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of 25% or more of either (1) the then outstanding Common Stock, or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; or (3) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;
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- (b) when, during any period of 24 consecutive months during the Employment Period, the individuals who, at the beginning of such period, constitute the Board (the “Company Incumbent Directors”) cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to be a Company Incumbent Director if such director was elected by, or on the recommendation of or with the approval of at least two-thirds of the directors of the Company, who then qualified as Company Incumbent Directors;
- (c) when the stockholders of the Company approve a reorganization, merger or consolidation of the Company without the consent or approval of a majority of the Company Incumbent Directors;
- (d) consummation of a merger, amalgamation or consolidation of the Company with any other corporation, the issuance of voting securities of the Company in connection with a merger, amalgamation or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (each, a “Business Combination”), unless, in each case of a Business Combination, immediately following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of the Common Stock outstanding immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then outstanding shares of common stock and 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Common Stock; or
- (e) a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company;

provided, however, that in no event shall a Change in Control be deemed to have occurred so long as Stonington Partners, Inc., together with Five Mile River Capital, LLC and any of their respective affiliates, remain the person or group with the largest single beneficial ownership stake in the outstanding Common Stock and combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of the Company's directors.

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

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

"Equity Award Documents" shall mean, with respect to the Executive, each of the following documents to the extent applicable: (a) the Management Stockholders Agreement, dated January 1, 2002, among the Company, Back to School Acquisition LLC and certain Management Investors; (b) the Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002, and any stock option agreement thereunder; (c) the Management Stock Subscription Agreement, dated January 1, 2002, among the Company and certain Management Investors; (d) any option agreements, restricted stock agreements or other equity award agreements under the Company's 2005 Long-Term Incentive Plan; and (e) any stock pledge agreement or promissory note relating to the Executive's stock options, shares of Company common stock underlying such options or restricted stock.

## CERTIFICATION

I, 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: November 8, 2011

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

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## CERTIFICATION

I, Cesar Ribeiro, certify that:

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

Date: November 8, 2011

/s/ Cesar Ribeiro

Cesar Ribeiro  
Chief Financial Officer

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**CERTIFICATION**

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

Each of the undersigned, Shaun E. McAlmont, President and Chief Executive Officer of Lincoln Educational Services Corporation (the “Company”), and Cesar Ribeiro, Chief Financial Officer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011 (the “Report”).

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

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

Date: November 8, 2011

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

/s/ Cesar Ribeiro  
Cesar Ribeiro  
Chief Financial Officer

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