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As filed with the Securities and Exchange Commission on March 29, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**8200**	**57-1150621**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification Number)*

200 Executive Drive, Suite 340
West Orange, New Jersey 07052
(973) 736-9340
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David F. Carney
Chairman of the Board and Chief Executive Officer
Lincoln Educational Services Corporation
200 Executive Drive, Suite 340
West Orange, New Jersey 07052
(973) 736-9340
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Proposed Maximum

Title of Each Class of Securities to be Registered	Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, no par value per share	$143,750,000	$16,919.38

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).

(2) Including shares of common stock which may be purchased by the underwriters to cover overallotments, if any.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated , 2005

PROSPECTUS

Shares

Lincoln Educational Services Corporation

Common Stock

This is Lincoln Educational Services Corporation's initial public offering. Lincoln Educational Services Corporation is selling shares and certain of Lincoln Educational Services Corporation's stockholders are selling shares.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares. After pricing of the offering, we expect that the shares will be quoted on The Nasdaq National Market under the symbol "LINC."

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 9 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters may also purchase up to an additional shares from Lincoln Educational Services Corporation, and up to an additional shares from the selling stockholders, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2005.

Merrill Lynch & Co.

Banc of America Securities LLC

Lehman Brothers

Harris Nesbitt

Jefferies & Company, Inc.

Robert W. Baird & Co.

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or other date stated in this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Lincoln Educational Services®, Lincoln Technical Institute®, Lincoln Tech®, LTI®, New England Technical Institute®, NETI®, New England Tech®, Center for Culinary Arts®, The Cittone Institute®, DOC® and DOC and design (a logo for our "Doctors Office Classroom" program) are our registered trademarks. CEI, Career Education Institute, is our registered mark in various states.

SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary sets forth the material terms of the offering, but does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully before making an investment decision, especially the risks of investing in our common stock discussed under "Risk Factors." Unless the context otherwise requires, the terms "Lincoln," "we," "us," "our," "LESC," and "the Company" refer to Lincoln Educational Services Corporation, or to Lincoln Technical Institute, Inc. prior to the reorganization described elsewhere in this prospectus, and its consolidated subsidiaries. See Note 1 of the notes to our financial statements included elsewhere in this prospectus for a description of the reorganization and the formation of Lincoln Educational Services Corporation. Unless otherwise indicated, industry data are derived from publicly available sources, which we have not independently verified.

Lincoln Educational Services Corporation

Overview

We are a leading and diversified for-profit provider of career-oriented post-secondary education as measured by total enrollment and number of graduates. We offer recent high school graduates and working adults degree and diploma programs in four principal areas of study: automotive technology, allied health, skilled trades and business and information technology. At December 31, 2004, our automotive technology program, our allied health program, our skilled trades program and our business and information technology program accounted for 47.5%, 31.9%, 10.2% and 10.4%, respectively, of our total enrollment. We believe that our diverse program offerings across a number of growing markets enable us to target a broad range of prospective students. We had 16,664 students enrolled as of December 31, 2004 and our average enrollment for the year ended December 31, 2004 was 16,266 students, an increase of 30.3% from average enrollment of 12,487 for the year ended December 31, 2003. For the year ended December 31, 2004, our revenues were $261.3 million, which represents a 31.4% increase from the year ended December 31, 2003. Excluding our acquisition of Southwestern College in January 2004, our revenues and average enrollments for the year ended December 31, 2004 would have increased by 27.5% and 22.4%, respectively, compared to the year ended December 31, 2003.

As of December 31, 2004 we operated 28 campuses under six well-established brands with long operating histories: Lincoln Technical Institute (LTI) (58 years of operation), Nashville Auto-Diesel College (NADC) (85 years), Denver Automotive & Diesel College (DADC) (41 years), The Cittone Institute (Cittone) (36 years), Career Education Institute (CEI) (21 years) and Southwestern College (Southwestern) (26 years). On January 11, 2005, we acquired New England Technical Institute (NETI), which has been in operation for 65 years and has four campuses. Our campuses, a majority of which serve major metropolitan markets, are located throughout the United States. Four of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas.

We believe that we provide our students with the highest quality career-oriented training available for our areas of study in our markets. We offer programs in areas of study that we believe are typically underserved by traditional providers of post-secondary education and for which we believe there exists significant demand among students and employers. Furthermore, we believe our convenient class scheduling, career focused curricula and emphasis on job placement offer our students valuable advantages that have been neglected by the traditional academic sector. By combining substantial hands-on training with traditional classroom based training led by experienced instructors, we believe we offer our students a unique opportunity to develop practical job skills in key areas of expected job demand. We believe these job skills enable our students to compete effectively for employment opportunities and to pursue on-going salary and career advancement.

Market Opportunity

The market for post-secondary education is large and growing. Expenditures on post-secondary education in the United States totaled over $350.8 billion in the 2003-2004 academic year. The number of students in the United States obtaining some form of post-secondary education totaled 17.0 million in the fall of 2002, and The National Center for Education Statistics estimates enrollments will grow to approximately 18.2 million by 2013. The career-oriented, post-secondary education market is also expected to grow due to a variety of demographic and economic factors, including an increasing demand for skilled workers, an increasing wage premium for skilled workers, a growing number of high school graduates and working adults seeking post-secondary education, market share gains from traditional academic institutions and the significant advantages in career prospects associated with post-secondary education. Furthermore, the for-profit sector is expected to grow as a percentage of total students enrolled in post-secondary education. Based on the most recent data published by the U.S. Department of Education, the for-profit post-secondary sector comprised only 2.9% of total students enrolled in degree programs in 1999. We believe that for-profit providers will continue to increase their share of the percentage of students served by the post-secondary education sector as for-profit providers are able to offer students advantages relative to traditional academic colleges and universities, including: convenient course scheduling, career-oriented curricula and strong job placement opportunities. According to the U.S. Department of Education, over the last 25 years, enrollments at for-profit post-secondary institutions have experienced a compounded annual growth rate of approximately 10% versus enrollments at traditional colleges and universities which had a compounded annual growth rate of only 1% over the same time period. In particular, we believe there is significant and growing demand by employers for individuals possessing skills in each of our areas of study. The U.S. Department of Labor estimates that there will be approximately 1.7 million job openings each year from 2000 to 2010 in careers related to the areas of study we offer.

Business Strengths

We believe that the following strengths differentiate us from our competitors:

Program Diversification. We believe the breadth of our areas of study and the diversity of our offerings increase our addressable market and enhance our overall revenue stability and operational flexibility. The breadth of our areas of study improves our potential for program expansion by providing us with a broader range of areas upon which to add or expand. The diversity of our program and degree offerings broadens our addressable market by attracting a varied student population, including recent high school graduates and working adults, both men and women. Additionally, our program offerings enable us to capitalize on positive trends in certain segments of the economy while reducing our dependence on other segments, as we have recently demonstrated by expanding our allied health programs to take advantage of job growth in these areas.

Operational Flexibility. Our operational infrastructure is highly flexible and enables us to adapt quickly to changing market trends. Our management team is experienced in the development of new programs and curricula that we can rapidly roll out to our schools. For example, we developed several allied health programs, including Medical Assisting which was piloted in one school and then replicated across our system to an additional 13 schools. We also developed the Electronic System Technology program at our Melrose Park campus and to date have replicated it to five additional campuses. We recently launched online associate degree programs and we expect to introduce other degree programs. We expect our online program offerings to broaden our market and further enhance our program flexibility. We also have substantial experience with the complex regulatory environment in which we operate and we believe this enables us to efficiently obtain the required approvals for new programs, expansion and acquisitions. We are also focused on the continual evaluation of our portfolio of schools and programs to maximize our facility utilization and can rapidly reallocate classroom space and other resources as necessary to exploit market opportunities. Finally, once we enter a new market through expansion or acquisition, our marketing and recruiting programs are designed to quickly populate the new program or school. For example, in 2002, we rapidly developed our allied health program curriculum, obtained the requisite regulatory approval, redesigned some of our classrooms and began to successfully market this new program offering. While allied health accounted for only 7% of our total enrollments as of December 31, 2002, it accounted for over 31.9% of our total enrollments as of December 31, 2004.

Strong Brands and Geographic Presence. We believe that our schools have established a strong competitive position in their respective local markets and significant brand recognition with prospective students and employers. The majority of our 32 campuses serve major metropolitan markets in the United States. Our LTI, DADC, NADC, Cittone, CEI, Southwestern and NETI brands provide us with local market representation in 15 states, while our destination schools—DADC, NADC and our Indianapolis, Indiana LTI school—attract students from across the United States and, in some cases, from abroad. Unlike competitors with single or regional campus models, we are able to recruit effectively from a national pool of potential students while also securing job placement for our graduates on a broader basis.

Strong Marketing and Student Recruitment. We use a variety of marketing and recruiting methods to attract students and increase enrollments. Our program combines various methods of media advertising such as television, the Internet and print media with a team of field- and campus-based recruiting representatives. Our media advertising is directed primarily at attracting high school students and working adults to our local campuses. Our field-based recruiting representatives make presentations at high schools to attract students to our local and destination campuses while our campus-based recruiting representatives field calls from our toll-free number and follow up with potential students on an individual basis. We continuously monitor and adjust the focus of our marketing and recruiting efforts to maximize efficiency and minimize our student acquisition costs. In addition, our administrators actively work with our current students, graduates and others to encourage referrals, which have historically represented approximately 20% of our new enrollments.

Experienced Management Team. Our senior management team has over 200 years of combined experience and an average of approximately 20 years of experience in the for-profit, post-secondary education industry. Mr. David Carney, our Chief Executive Officer, has 27 years of experience with for-profit education companies, including serving as Vice President, Chief Financial Officer and Vice President of Development for the chain of technical schools owned by British Oxygen Group Limited, which he grew from four schools when he started to 25 schools ten years later. Mr. Lawrence Brown, our President and Chief Operating Officer, has over 32 years of experience in the industry. He has been with us for more than 27 years, and has performed various roles such as admissions officer/director, school director, regional Vice President and executive Vice President. Mr. Thomas McHugh, our Vice President of Compliance, has 30 years of experience with for-profit education companies, including serving as Director of Review and Analysis for Computer Learning Centers, Inc. We believe that our management team's deep understanding of the for-profit, post-secondary education industry enables us to successfully manage our operations and facilitate our growth.

Growth Strategy

Our goal is to strengthen our role as a leading and diversified provider of career-oriented post-secondary education by continuing to pursue the following growth strategies:

- ***Expand Existing Areas of Study and Existing Facilities***. We believe we can leverage our existing operations to capitalize on the growing demand from students and employers in our local markets. We are adding new programs and degree offerings in our current areas of study and are expanding several of our campus facilities.

- ***Enter New Geographic Markets and New Areas of Study*** . We believe we can increase our student enrollments by entering selected new geographic markets and new areas of study. We target new markets and areas of study that we believe have significant growth potential and where we can leverage our reputation and operating expertise. We expect that our entrance into new geographic markets and areas of study will increase our diversification and potential for future program expansion.

- ***Opportunistically Pursue Strategic Acquisitions*** . In evaluating potential acquisitions, we seek to identify schools with the potential for program replication at our existing campuses, new areas of study, new markets with attractive growth opportunities and advanced degree programs. We also look for schools whose operations we can improve by leveraging our sales and marketing expertise, business management systems and our experienced management team.

- ***Introduce Online Education Alternatives*** . We recently launched our online initiative to capitalize on the rapidly growing demand for, and flexibility provided by, online education alternatives. Initially, we are offering our diploma graduates the opportunity to earn their associate degree online and we expect to expand our offering to include other degree programs. This should broaden our addressable market and be an attractive option for students without the geographic or financial flexibility to enroll in campus-based programs.

Recent Developments

On January 11, 2005, we acquired the rights, title and interests in the assets used in the conduct and operation of NETI for a purchase price of approximately $20.0 million. NETI operates four schools in New Britain, Hamden, Shelton and Cromwell, Connecticut and provides programs in automotive technology, allied health, business and information technology and skilled trades, including culinary arts and nursing. This acquisition expands our presence in the northeastern U.S. and increases the number of campuses we operate from 28 to 32.

Principal Stockholders

Stonington Partners, Inc. II (Stonington), our principal stockholder, is a private investment fund with over $1.0 billion in assets under management. Alexis P. Michas, a Managing Partner of Stonington, and James J. Burke, Jr., a Partner, are members of our board of directors. Stonington currently owns, through Back to School Acquisition, L.L.C., its controlled subsidiary, 78.7% of the fully diluted equity of Lincoln Educational Services Corporation, and, after giving effect to this offering, Stonington will continue to own % of the fully diluted equity of Lincoln Educational Services Corporation.

Hart Capital LLC (Hart Capital), which is the managing member of our second largest stockholder Five Mile River Capital Partners LLC, is a private investment fund that invests primarily in the education sector. Hart Capital has assisted us in our acquisitions and online programs. Steven W. Hart, the owner and President of Hart Capital, is a member of our board of directors. Hart Capital currently owns 13.6% of the fully diluted equity of Lincoln Educational Services Corporation; and after giving effect to this offering, Hart Capital will continue to own % of the fully diluted equity of Lincoln Educational Services Corporation.

Our principal executive offices are located at 200 Executive Drive, Suite 340, West Orange, New Jersey 07052, and our telephone number at that address is (973) 736-9340.

The Offering

Common stock offered:	
By us	shares
By the selling stockholders	shares
Total	shares
Shares outstanding after the offering	shares
Use of proceeds	We estimate that our proceeds from this offering will be approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use these net proceeds primarily to repay $30 million outstanding under our new credit agreement and for working capital and general corporate purposes, which may include the expansion of existing facilities, strategic acquisitions and the development and introduction of new programs. Any amounts we repay under our new credit agreement may be reborrowed in the future. See "Use of Proceeds."
	We will not receive any proceeds from the sale of shares by the selling stockholders.
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Proposed Nasdaq National Market symbol	LINC

Unless we indicate otherwise, all information in this prospectus (1) assumes no exercise of the overallotment option granted to the underwriters and (2) excludes:

- 2,022,495 shares issuable upon the exercise of options outstanding as of December 31, 2004; and
- shares available for future option grants.

Summary Historical and Pro Forma Financial and Other Data

The following tables set forth our summary historical and pro forma financial and other data as of the dates and for the periods indicated. The summary historical consolidated statement of operations data for each of the years in the three-year period ended December 31, 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated balance sheet data as of December 31, 2004 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary pro forma statement of operations and other data for the year ended December 31, 2004 reflects our acquisitions of Southwestern (which occurred on January 23, 2004) and NETI (which occurred on January 11, 2005) as if each of these acquisitions had occurred on January 1, 2004. The summary pro forma balance sheet data as of December 31, 2004 reflect the acquisition of NETI as if it had occurred on December 31, 2004. The summary pro forma as adjusted balance sheet data as of December 31, 2004 further reflect our sale of common stock in this offering and the application of the net proceeds therefrom. The historical results included below and elsewhere in this prospectus are not necessarily indicative of our future performance. The summary pro forma and pro forma as adjusted financial data do not purport to be indicative of the results of operations that would have been achieved had these acquisitions and this offering been consummated as of the dates assumed, nor are the results necessarily indicative of our future results of operations.

You should read the following summary historical, pro forma and pro forma as adjusted financial and other data in conjunction with "Selected Financial Information," "Unaudited Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements along with the notes thereto, included elsewhere in this prospectus.

	Year Ended December 31,			
	2002	2003	2004	2004 Pro Forma
	(dollars in thousands)			
Statement of Operations Data:				
Revenues	$ 139,201	$ 198,881	$ 261,275	$ 276,223
Costs and expenses:				
Educational services and facilities	66,580	85,201	104,843	113,204
Selling, general and administrative(1)	71,753	97,714	130,941	136,570
(Gain) loss on sale of assets	(1,082)	(22)	368	368
Total costs and expenses	137,251	182,893	236,152	250,142
Operating income	1,950	15,988	25,123	26,081
Gain on sale of securities	—	211	—	—
Interest income	212	133	104	133
Interest expense	(2,937)	(2,758)	(3,007)	(4,196)
Income (loss) before income taxes	(775)	13,574	22,220	22,018
Provision (benefit) for income taxes	(101)	5,355	9,242	9,158
Net (loss) income	$ (674)	$ 8,219	$ 12,978	$ 12,860

	Year Ended December 31,			
	2002	2003	2004	2004 Pro Forma
	(dollars in thousands, except per share data)			
Income (loss) per share:				
Basic	$ (0.03)	$ 0.38	$ 0.60	$ 0.59
Diluted	(0.03)	0.37	0.56	0.56
Other Data:				
EBITDA(2)	$ 9,151	$ 26,078	$ 35,872	$ 37,686
EBITDA margin(3)	6.6%	13.1%	13.7%	13.6%
Net cash provided by operating activities	9,723	27,166	26,674	—
Net cash used in investing activities	(2,155)	(8,680)	(38,311)	—
Net cash provided by (used in) financing activities	(3,889)	19,400	4,117	—
Capital expenditures	3,598	13,154	23,813	—
Number of campuses (at end of period)	23	23	28	32
Average student enrollments	9,155	12,487	16,266	17,362

	As of December 31, 2004		
	Actual	Pro Forma	Pro Forma As Adjusted
	(dollars in thousands)		
Balance Sheet Data:			
Cash and cash equivalents	$ 41,445	$ 23,188	
Working capital (deficit)(4)	4,570	(16,184)	
Total assets	162,729	172,564	
Total debt(5)	46,829	46,829	
Shareholders' equity	$ 58,086	$ 58,086	

(1) Selling, general and administrative expenses includes (a) a $2.1 million charge for the year ended December 31, 2004 to give effect to the one-time write-off of deferred offering costs, (b) compensation costs of approximately $0.5 million, $0.8 million and $1.8 million for the years ended December 31, 2002, 2003 and 2004, respectively, related to the adoption of SFAS No. 123, "*Accounting for Stock Based Compensation*" and (c) a $0.7 million one-time non cash charge for the year ended December 31, 2004 related to the timing of rent expense for our schools during the period of construction of leasehold improvements and to align the depreciation lives of our leasehold improvements to the terms of our noncancellable leases, including renewal options.

(2) EBITDA is a measurement not recognized in financial statements presented in accordance with GAAP. We define EBITDA as net (loss) income before interest expense (net of interest income), provision (benefit) for income taxes and depreciation and amortization. For the year ended December 31, 2003, EBITDA includes a gain on sale of securities of $0.2 million. EBITDA is presented because we believe it is a useful indicator of our performance and our ability to make strategic acquisitions and meet capital expenditure and debt service requirements. It is not, however, intended to represent cash flows from operations as defined by GAAP and should not be used as an alternative to net income (loss) as an indicator of operating performance or to cash

flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures used by other companies. Following is a reconciliation of net (loss) income to EBITDA:

	Year Ended December 31,			
	2002	2003	2004	2004 Pro Forma
	(dollars in thousands)			
Net (loss) income	$ (674)	$ 8,219	$ 12,978	$ 12,860
Interest expense, net	2,725	2,625	2,903	4,063
Provision (benefit) for income taxes	(101)	5,355	9,242	9,158
Depreciation and amortization	7,201	9,879	10,749	11,605
EBITDA	$ 9,151	$ 26,078	$ 35,872	$ 37,686

(3) EBITDA divided by revenues.

(4) Working capital (deficit) is defined as current assets less current liabilities.

(5) Total debt consists of long-term debt including current portion, capital leases, auto loans and a finance obligation for $9.7 million for each of the years in the three-year period ended December 31, 2004 incurred in connection with a sale-leaseback transaction as further described in Note 8 to the consolidated financial statements included elsewhere in this prospectus.

RISK FACTORS

You should carefully consider each of the risks below, together with all of the other information contained in this prospectus, before deciding to invest in shares of our common stock.

If any of the following risks is not managed, our business, prospects, financial condition and results of operations could be materially adversely affected, the market price of your shares could decline, and you could lose all or part of your investment.

Risks Related to Our Industry

Failure of our schools to comply with the extensive regulatory requirements for school operations could result in financial penalties, restrictions on our operations and loss of external financial aid funding.

Our schools are subject to extensive regulation by federal and state governmental agencies and by accrediting commissions. In particular, the Higher Education Act of 1965, as amended, or the HEA, and the regulations promulgated thereunder by the U.S. Department of Education, or the DOE, set forth numerous standards that our schools must satisfy to participate in various federal student financial assistance programs under Title IV of the HEA, which we refer to as Title IV Programs. In 2004, we derived approximately 81% of our revenues, calculated on a cash basis as required by DOE regulations, from Title IV Programs administered by the DOE. To participate in Title IV Programs, each of our schools must receive and maintain authorization by the applicable education agencies in the state in which each school is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. The DOE defines an eligible institution to consist of both a main campus and its additional locations, if any. Each of our schools is either a main campus or an additional location of a main campus. These regulatory requirements cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition.

These regulations require us, among other things, to:

- adhere to financial responsibility and administrative capability standards;
- prohibit the payment of impermissible incentives to personnel engaged in student recruiting, admissions activities or awarding financial aid;
- maintain authorizations from state agencies and accreditations from accrediting commissions;
- achieve and maintain stringent retention, completion and placement outcomes in accordance with accrediting commission and other standards;
- limit the annual percentage of revenues (calculated on a cash basis of accounting) derived at each of our institutions from federal student financial aid programs to not more than 90%;
- undertake steps to assure that the students at each of our institutions do not default on payments to third party lenders on federally guaranteed loans at rates deemed unacceptable by law;
- calculate and return unearned Title IV Program funds disbursed to students who withdraw from their educational programs before completing them in a timely manner; and
- have regulators approve any school acquisition or certain other transactions, such as this offering, if they are viewed to be a change of control of our company, to permit continued participation in Title IV Programs.

These regulatory requirements also affect our ability to acquire or open additional schools, add new educational programs, expand existing educational programs, and change our corporate structure and ownership. The state education agencies, our accrediting commissions and the DOE periodically revise their requirements and modify their interpretations of existing requirements.

If one or more of our schools fail to comply with the regulatory requirements of the DOE, a state education agency or an accrediting commission, the school and its related main campus and/or additional locations could be subject to the loss of state licensure or accreditation, the loss of eligibility to participate in and receive funds under the Title IV Programs, the loss of the ability to grant degrees, diplomas and certificates, provisional certification, or the imposition of liabilities or monetary penalties, each of which could adversely affect our revenues and impose significant operating restrictions upon us. In addition, the loss by any of our institutions (main campuses as well as additional locations) of its accreditation or its state authorization necessary to provide post-secondary education, its state license, or the cancellation of any such institution's eligibility to participate in Title IV Programs, constitutes an event of default under our new credit agreement, which we and our subsidiaries entered into with a syndicate of banks on February 15, 2005, which could result in the acceleration of all amounts then outstanding under our new credit agreement. We cannot predict with certainty how any of these regulatory requirements will be applied or whether each of our schools will be able to comply with these requirements in the future. Moreover, we may in the future be subject to lawsuits filed under the *qui tam* provisions of the federal False Claims Act. See "Business—Legal Proceedings." We have described some of the most significant regulatory risks that apply to our schools in the following paragraphs.

If we or our eligible institutions do not meet the financial responsibility standards prescribed by the DOE, we may be required to post letters of credit or our eligibility to participate in Title IV Programs could be terminated or limited, which could significantly reduce our student population and revenues.

To participate in Title IV Programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the DOE or post a letter of credit in favor of the DOE and possibly accept other conditions on its participation in Title IV Programs. Any obligation to post one or more letters of credit would increase our costs of regulatory compliance. Our inability to obtain a required letter of credit or limitations on, or termination of, our participation in Title IV Programs could limit our students' access to various government-sponsored student financial aid programs, which could significantly reduce our student population and revenues.

Each year, based on the financial information submitted by an eligible institution that participates in Title IV Programs, the DOE calculates three financial ratios for the institution: an equity ratio, a primary reserve ratio and a net income ratio. Each of these ratios is scored separately and then combined into a composite score to measure the institution's financial responsibility. If an institution's composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as "the zone." Under DOE regulations, institutions that are in the zone are deemed to be financially responsible for a period of up to three years but are required to accept payment of Title IV Program funds under the cash monitoring or reimbursement method of payment, be provisionally certified, and provide to the DOE timely information regarding various oversight and financial events. If an institution's composite score is below 1.0, the institution is considered by the DOE to lack financial responsibility and, as a condition of Title IV Program participation, the institution may be required to, among other things, post a letter of credit in an amount of at least 50 percent of the institution's annual Title IV Program participation for its most recent fiscal year or alternatively, post a letter of credit in an amount of at least 10 percent of the institution's annual Title IV Program participation for its most recent fiscal year, be provisionally certified, and provide to the DOE timely information regarding various oversight and financial events. DOE regulations permit the DOE to examine our financial statements, including the financial statements of each institution and the financial statements of any related party. The DOE has historically evaluated the financial condition of our institutions on a consolidated basis.

Based on our calculations, our audited financial statements for the 2003 and 2004 fiscal years reflect a composite score of 2.1 and 1.8, respectively. However, as a result of the corrections of certain errors, including accounting for advertising costs, a sale leaseback transaction, rent and certain other individually insignificant adjustments, in our prior financial statements, the DOE recomputed our consolidated composite scores for the years ended December 31, 2001 and 2002 and concluded that the recomputed consolidated composite scores for those two years were below 1.0. In addition, we identified certain additional errors in our financial statements for the year ended December 31, 2003 relating to our accounting for stock-based compensation and accrued bonuses that did not result in a recomputation of our 2003 composite score. The DOE has informed us that as a result, for a period of three years effective December 30, 2004, all of our current and future institutions have been placed on "Heightened Cash Monitoring, Type 1 status," and are required to timely notify the DOE with respect to certain enumerated oversight and financial events. The DOE also informed us that these corrections will be taken into consideration when each of our institutions applies for recertification of its eligibility to participate in Title IV Programs. When each of our institutions is next required to apply for recertification to participate in Title IV Programs, we expect that the DOE will also consider our audited financial statements and composite scores for our most recent fiscal year as well as for other fiscal years after 2001 and 2002. Additionally, since the DOE concluded that the previously computed composite scores for 2001 and 2002 were overstated, we have agreed to pay $165,000 to the DOE, pursuant to a settlement agreement, to resolve compliance issues related to this matter. We paid this amount on March 3, 2005. Although no assurance can be given, we do not believe that the actions of the DOE specified above will have a material effect on our financial position or results of operations.

If we fail to demonstrate "administrative capability" to the DOE, our business could suffer.

DOE regulations specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV Programs. These criteria require, among other things, that the institution:

- comply with all applicable Title IV regulations;
- have capable and sufficient personnel to administer Title IV Programs;
- have acceptable methods of defining and measuring the satisfactory academic progress of its students;
- provide financial aid counseling to its students; and
- submit in a timely manner all reports and financial statements required by the regulations.

If an institution fails to satisfy any of these criteria or any other DOE regulation, the DOE may:

- require the repayment of Title IV funds;
- transfer the institution from the "advance" system of payment of Title IV funds to the "reimbursement" system of payment or cash monitoring;
- place the institution on provisional certification status; or
- commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV Programs.

If we are found not to have satisfied the DOE's "administrative capability" requirements, one or more of our institutions, including its additional locations, could be limited in its access to, or lose, Title IV Program funding.

We are subject to sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admissions or financial aid activities.

A school participating in Title IV Programs may not provide any commission, bonus or other incentive payment based on success in enrolling students or securing financial aid to any person involved in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. If we are found to have violated this law, we could be fined or otherwise sanctioned by the DOE or we could face litigation filed under the *qui tam* provisions of the Federal False Claims Act. See "Business—Legal Proceedings."

If our schools do not maintain their state authorizations and their accreditation, they may not participate in Title IV Programs.

An institution that grants degrees, diplomas or certificates must be authorized by the appropriate education agency of the state in which it is located and, in some cases, other states. Requirements for authorization vary substantially among states. The school must be authorized by each state in which it is physically located in order for its students to be eligible for funding under Title IV Programs. Loss of state authorization by any of our schools from the education agency of the state in which the school is located would end that school's eligibility to participate in Title IV Programs and could cause us to close the school.

A school must be accredited by an accrediting commission recognized by the DOE in order to participate in Title IV Programs. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution, including maintaining stringent retention, completion and placement outcomes. Certain states require institutions to maintain accreditation as a condition of continued authorization to grant degrees. The HEA requires accrediting commissions recognized by the DOE to review and monitor many aspects of an institution's operations and to take appropriate disciplinary action when the institution fails to comply with the accrediting agency's standards. Loss of accreditation by any of our main campuses would result in the termination of eligibility of that school and all of its branch campuses to participate in Title IV Programs and could cause us to close the school and its branches.

Our institutions may lose eligibility to participate in Title IV Programs if the percentage of their revenues derived from those programs is too high or if student loan default rates are too high, which could reduce our student population and revenues.

A proprietary institution of higher education, such as each of our institutions, loses its eligibility to participate in Title IV Programs if it derives more than 90% of its revenues (calculated on a cash basis) from those programs in any fiscal year as calculated in accordance with DOE regulations. Any institution that violates this rule immediately becomes ineligible to participate in Title IV Programs and is ineligible to apply to regain its eligibility until the following fiscal year. Based on our calculations, none of our institutions received more than 90% of its revenues in fiscal year 2004, and our institution with the highest percentage received approximately 87% of its revenues, from Title IV Programs. If any of our institutions loses eligibility to participate in Title IV Programs, that loss would cause an event of default under our new credit agreement, which could result in the acceleration of any indebtedness then outstanding under our new credit agreement, and would also adversely affect our students' access to various government-sponsored student financial aid programs, which could reduce our student population and revenues. These calculations are required to be made on a cash basis of accounting.

An institution may also lose its eligibility to participate in some or all Title IV Programs if its former students default on the repayment of their federal student loans in excess of specified levels. Based upon the most recent official student loan default rates published by the DOE, none of our institutions has student loan default rates that exceed the specified levels. If any of our institutions loses eligibility to participate in Title IV Programs because of high student loan default rates, that loss would adversely affect our students' access to various government-sponsored student financial aid programs, which could reduce our student population and revenues.

We are subject to sanctions if we fail to correctly calculate and timely return Title IV Program funds for students who withdraw before completing their educational program.

An institution participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that have been credited to students who withdraw from their educational programs before completing them and must return those unearned funds in a timely manner, generally within 30 days of the date the institution determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of the DOE or be otherwise sanctioned by the DOE, which could increase our cost of regulatory compliance and adversely affect our results of operations. Southwestern made late returns of Title IV Program funds in excess of the DOE's prescribed threshold. As a result, in accordance with DOE regulations, we submitted a letter of credit in favor of the DOE in the amount of $28,400. NADC made late returns of Title IV Program funds in excess of the DOE's prescribed threshold during periods that predated our acquisition of NADC. As a result, in accordance with DOE regulations, we submitted a letter of credit in favor of the DOE in the amount of $327,000. Based on the absence of late returns of Title IV Program funds in excess of the DOE's prescribed thresholds in NADC's compliance audits for the 2002 fiscal year after our acquisition and for the 2003 fiscal year, we were allowed to have this letter of credit expire in accordance with its terms in March 2004. Our other institutions were not required to submit a letter of credit based on the results of their 2002 and 2003 compliance audits.

If regulators do not approve our acquisition of a school that participates in Title IV Programs, the acquired school would not be permitted to participate in Title IV Programs, which could impair our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school.

If we acquire a school that participates in Title IV Programs, we must obtain approval from the DOE and applicable state education agencies and accrediting commissions in order for the school to be able to continue operating and participating in Title IV Programs. An acquisition can result in the temporary suspension of the acquired school's participation in Title IV Programs unless we submit a timely and materially complete application for recertification to the DOE and the DOE issues a temporary provisional program participation agreement, or a TPPPA. If we were unable to timely re-establish the state authorization, accreditation or DOE certification of the acquired school, our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school could be impaired. Southwestern received and signed a provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE or, alternatively, to receive a new agreement to be signed by it and the DOE. In connection with our acquisition of NETI, we received a TPPPA from the DOE which we are waiting for the DOE to countersign, and are in the process of obtaining final approval of the NETI acquisition from the DOE. We expect the DOE approval issued to NETI at the conclusion of the pending change in ownership approval process to be provisional although we can provide no assurance as to the timing and content of the DOE's response to the pending change in ownership application.

If regulators do not approve or delay their approval of transactions involving a change of control of our company or any of our schools, our ability to participate in Title IV Programs may be impaired.

If we or any of our schools experience a change of control under the standards of applicable state education agencies, our accrediting commissions or the DOE, we or the affected schools must seek the approval of the relevant regulatory agencies in order for us or the acquired school to participate in Title IV Programs. Transactions or events that constitute a change of control include significant acquisitions or dispositions of our common stock or significant changes in the composition of our board of directors. Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in receiving, approval of any change of control from any state in which our schools are located or other states as the case may be, our accrediting commissions or the DOE could impair or result in the termination of our accreditation, state licensure or ability to participate in Title IV Programs. Our failure to obtain, or a delay in obtaining, approval of any change of control from any state in which we do not have a school but in which we recruit students could require us to suspend our recruitment of students in that state until we receive the required approval. The potential adverse effects of a change of control with respect to participation in Title IV Programs could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of our common stock and could have an adverse effect on the market price of your shares.

We have not received confirmation from the DOE or our state licensing agencies that this offering will not be a change of control under its standards. We intend to submit requests for such confirmation from the DOE and educational agencies in states in which our schools are physically located, which we expect to receive prior to completion of this offering. Ten of our campuses, plus the additional four campuses we acquired as a result of our acquisition of NETI, are accredited by the Accrediting Commission of Career Schools and Colleges of Technology, or ACCSCT, and 18 of our campuses are accredited by the Accrediting Council for Independent Colleges and Schools or ACICS. ACCSCT and ACICS have previously confirmed that this offering will not be a change of control under their standards.

Congress may change the law or reduce funding for Title IV Programs, which could reduce our student population, revenues or profit margin.

Congress periodically revises the HEA and other laws governing Title IV Programs and annually determines the funding level for each Title IV Program. During 2005, Congress is expected to devote significant attention to reauthorizing the HEA, which will likely result in numerous changes. Approximately 81% of our revenues in 2004 (calculated on a cash basis of accounting) were derived from Title IV programs. Any action by Congress that significantly reduces funding for Title IV Programs or the ability of our schools or students to receive funding through these programs could reduce our student population and revenues. Congressional action may also require us to modify our practices in ways that could result in increased administrative costs and decreased profit margin.

In addition current requirements for student and school participation in Title IV Programs may change or one or more of the present Title IV Programs could be replaced by other programs with materially different student or school eligibility requirements. If we cannot comply with the provisions of the HEA, as they may be revised, or if the cost of such compliance is excessive, our business could be adversely affected.

Regulatory agencies or third parties may conduct compliance reviews, bring claims or initiate litigation against us.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of non-compliance and lawsuits by government agencies and third parties. If the results of these reviews or proceedings are unfavorable to us, or if we are unable to defend successfully against third-party lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations on the operations of our business, loss of federal funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a third-party lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or defend those lawsuits or claims. The DOE conducted a program review at Southwestern and issued an initial program review report in which it identified potential instances of non-compliance with DOE requirements. Southwestern has submitted an initial response to the report, is in the process of submitting additional information to the DOE and is waiting for a response or determination from the DOE. The DOE also conducted a program review at NADC and issued a final program determination stating that NADC had taken the required corrective actions to resolve four of five findings of noncompliance with DOE requirements and requiring that NADC pay the DOE $14,499 based on the fifth finding. The fifth finding related to NADC granting Federal Supplemental Educational Opportunity Grant matching funds to ineligible students. NADC expects to pay this amount to the DOE in the second quarter of 2005.

Risks Related to Our Business

If we fail to effectively manage our growth, we may incur higher costs and expenses than we anticipate in connection with our growth.

We have experienced a period of significant growth since 1999. Our continued growth has strained and may in the future strain our management, operations, employees or other resources. We will need to continue to assess the adequacy of our staff, controls and procedures to meet the demands of our continued growth. We may not be able to maintain or accelerate our current growth rate, effectively manage our expanding operations or achieve planned growth on a timely or profitable basis. If we are unable to manage our growth effectively while maintaining appropriate internal controls, we may experience operating inefficiencies that likely will increase our expected costs.

We may not be able to successfully integrate acquisitions into our business, which may adversely affect our results of operations and financial condition.

Since 1999, we have acquired a number of schools and we may continue to grow our business through acquisitions. The anticipated benefits of an acquisition may not be achieved unless we successfully integrate the acquired school or schools into our operations and are able to effectively manage, market and apply our business strategy to any acquired schools. Integration challenges include, among others, regulatory approvals, significant capital expenditures, assumption of known and unknown liabilities and our ability to control costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the senior management of the acquired schools, which could decrease the time that they devote to the day-to-day management of our business. The difficulties of integration may initially be increased by the necessity of integrating personnel with disparate business backgrounds and corporate cultures. Management's focus on the integration of acquired schools and on the application of our business strategy to those schools could interrupt or cause loss of momentum in our other ongoing activities.

Failure on our part to establish and operate additional schools or campuses or effectively identify suitable expansion opportunities could reduce our ability to implement our growth strategy.

As part of our business strategy, we anticipate opening and operating new schools or campuses. Establishing new schools or campuses poses unique challenges and requires us to make investments in management and capital expenditures, incur marketing expenses and devote other resources that are different, and in some cases greater than those required with respect to the operation of acquired schools.

To open a new school or campus, we would be required to obtain appropriate state and accrediting commission approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible for federal Title IV Program funding, a new school or campus would have to be certified by the DOE and would require federal authorization and approvals. In the case of entirely separate, freestanding U.S. schools, a minimum of two years' operating history is required to be eligible for Title IV Program funding. We cannot be sure that we will be able to identify suitable expansion opportunities to maintain or accelerate our current growth rate or that we will be able to successfully integrate or profitably operate any new schools or campuses. Additionally, we began offering online courses in mid-2004. We have not previously offered courses online and, accordingly, these programs may not be successful. A failure by us to effectively identify suitable expansion opportunities and to establish and manage the operations of newly established schools or online offerings could slow our growth and make any newly established schools or our online programs unprofitable or more costly to operate than we had planned.

Our success depends in part on our ability to update and expand the content of existing programs and develop new programs in a cost-effective manner and on a timely basis.

Prospective employers of our graduates increasingly demand that their entry-level employees possess appropriate technological skills. These skills are becoming more sophisticated in line with technological advancements in the automotive, diesel, IT, skilled trades and healthcare industries. Accordingly, educational programs at our schools must keep pace with those technological advancements. The expansion of our existing programs and the development of new programs may not be accepted by our students, prospective employers or the technical education market. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as our competitors or as quickly as employers demand. If we are unable to adequately respond to changes in market requirements due to financial constraints, unusually rapid technological changes or other factors, our ability to attract and retain students could be impaired, our placement rates could suffer and our revenues could be adversely affected.

In addition, if we are unable to adequately anticipate the requirements of the employers we serve, we may offer programs that do not teach skills useful to prospective employers or students seeking a technical or career-oriented education which could affect our placement rates and our ability to attract and retain students, causing our results of operations to be adversely affected.

We may not be able to retain our key personnel or hire and retain the personnel we need to sustain and grow our business.

Our success has depended, and will continue to depend, largely on the skills, efforts and motivation of our executive officers who generally have significant experience within the post-secondary education industry. Our success also depends in large part upon our ability to attract and retain highly qualified faculty, school directors, administrators and corporate management. Due to the nature of our business, we face significant competition in the attraction and retention of personnel who possess the skill sets that we seek. In addition, key personnel may leave us and subsequently compete against us. Furthermore, we do not currently carry "key man" life insurance on any of our employees. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have an adverse effect on our ability to operate our business efficiently and to execute our growth strategy.

If we are unable to hire, retain and continue to develop and train our employees responsible for student recruitment, the effectiveness of our student recruiting efforts would be adversely affected.

In order to support revenue growth, we need to hire new employees dedicated to student recruitment and retain and continue to develop and train our current student recruitment personnel. Our ability to develop a strong student recruiting team may be affected by a number of factors, including our ability to integrate and motivate our student recruiters; our ability to effectively train our student recruiters; the length of time it takes new student recruiters to become productive; regulatory restrictions on the method of compensating student recruiters; the competition in hiring and retaining student recruiters; and our ability to effectively manage a multi-location educational organization. If we are unable to hire, develop or retain our student recruiters, the effectiveness of our student recruiting efforts will be adversely affected.

Competition could decrease our market share and cause us to lower our tuition rates.

The post-secondary education market is highly competitive. Our schools compete for students and faculty with traditional public and private two-year and four-year colleges and universities and other proprietary schools, many of which have greater financial resources than we do. Some traditional public and private colleges and universities, as well as other private career-oriented schools, offer programs that may be perceived by students to be similar to ours. Most public institutions are able to charge lower tuition than our schools, due in part to government subsidies and other financial resources not available to for-profit schools. Some of our competitors also have substantially greater financial and other resources than we have which may, among other things, allow our competitors to secure strategic relationships with some or all of our existing strategic partners or develop other high profile strategic relationships or devote more resources to expanding their programs and their school network, all of which could affect the success of our marketing programs. In addition, some of our competitors already have a more extended or dense network of schools and campuses than we do, enabling them to recruit students more effectively from a wider geographic area. If we are unable to compete effectively with these institutions for students, our student enrollments and revenues will be adversely affected.

We may be required to reduce tuition or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our market share, revenues and operating margin may be decreased. We cannot be sure that we will be able to compete successfully against current or future competitors or that the competitive pressures we face will not adversely affect our revenues and profitability.

Our financial performance depends in part on our ability to continue to develop awareness and acceptance of our programs among high school graduates and working adults looking to return to school.

The awareness of our programs among high school graduates and working adults looking to return to school is critical to the continued acceptance and growth of our programs. Our inability to continue to develop awareness of our programs could reduce our enrollments and impair our ability to increase our revenues or maintain profitability. The following are some of the factors that could prevent us from successfully marketing our programs:

- student dissatisfaction with our programs and services;
- diminished access to high school student populations;
- our failure to maintain or expand our brand or other factors related to our marketing or advertising practices; and
- our inability to maintain relationships with automotive, diesel, healthcare, skilled trades and IT manufacturers and suppliers.

If students fail to pay their outstanding balances, our business will be harmed.

We offer a variety of payment plans to help students pay the portion of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed. Although we have reserved for estimated losses related to unpaid student balances, losses in excess of the amounts we have reserved for bad debts would result in a reduction in our profitability.

An increase in interest rates could adversely affect our ability to attract and retain students.

Interest rates have reached historical lows in recent years, creating a favorable borrowing environment for our students. Much of the financing our students receive is tied to floating interest rates. Therefore, any future increase in interest rates will result in a corresponding increase in the cost to our existing and prospective students of financing their education, which could result in a reduction in our student population and revenues. Higher interest rates could also contribute to higher default rates with respect to our students' repayment of their education loans. Higher default rates may in turn adversely impact our eligibility for Title IV Program participation, which could result in a reduction in our student population.

Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our common stock.

Our results of operations 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 than in the remainder of the year because fewer new students start during the summer months. Our expenses, however, do not generally vary at the same rate as changes in our student population and revenues and, as a result, do not fluctuate significantly on a quarterly basis. We expect quarterly fluctuations in results of operations to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of acquisitions, new school openings, new program introductions and increased enrollments of adult students. These fluctuations may result in volatility or have an adverse effect on the market price of our common stock.

We cannot predict our future capital needs, and we may not be able to secure additional financing.

We may need to raise additional capital in the future to fund our operations, expand our markets and program offerings or respond to competitive pressures or perceived opportunities. We cannot be sure that additional financing will be available to us on favorable terms, or at all. If adequate funds are not available when required or on acceptable terms, we may be forced to cease our operations and, even if we are able to continue our operations, our ability to increase student enrollments and revenues would be adversely affected.

Our schools' failure to comply with environmental laws and regulations governing our activities could result in financial penalties and other costs which could adversely impact our results of operations.

We use hazardous materials at some of our schools and generate small quantities of waste, such as used oil, antifreeze, paint and car batteries. As a result, our schools are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties which could adversely impact our results of operations.

Approximately 35% of our schools are concentrated in the states of New Jersey and Pennsylvania and a change in the general economic or regulatory conditions in these states could have an adverse effect on our business, results of operations or financial condition.

As of December 31, 2004, we operated 28 schools in 14 states. Ten of those schools are located in the states of New Jersey and Pennsylvania. As a result of this geographic concentration, any material change in general economic conditions in New Jersey or Pennsylvania could reduce our student enrollment in our schools located in these states and thereby reduce our revenues. In addition, the legislatures in the state of New Jersey or Pennsylvania could change the law in those states or adopt regulations regarding private, for-profit post-secondary coeducation institutions which could place additional burdens on us. If we were unable to comply with any such new legislation, we could be prohibited from operating in those jurisdictions which could reduce our revenues.

The number of lenders and financial institutions that make federally guaranteed student loans and that guarantee Title IV loans is relatively small. The loss of any of these lenders or guarantors could cause a material adverse effect on our financial condition and results of operations.

In 2004, six lenders provided funding to more than 91% of the students at the schools we owned. While we believe that other lenders would be willing to make federally guaranteed student loans to our students if loans were no longer available from our current lenders, we cannot assure you that there are other lenders who would make federally guaranteed loans to our students. If such alternative lenders were not forthcoming, our enrollment and our results of operations could be materially and adversely affected.

In addition, the primary guarantors for the Title IV loans of our students are USA Group, a subsidiary of Sallie Mae, and New Jersey Higher Education Assistance Authority, an independent agency of the State of New Jersey. These two agencies currently guarantee 91% of all federally guaranteed student loans made to students enrolled at our schools. There are six other guaranty agencies that guarantee student loans made to students enrolled at our schools. We believe that other guaranty agencies would be willing to guarantee loans to our students if any of these guarantee agencies ceased guaranteeing those loans or reduced the volume of loans they guarantee; however, if we cannot find other guarantors, our results of operations could be materially and adversely affected.

Risks Related to the Offering

The price of our common stock may be volatile and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons which include:

- our quarterly or annual earnings or those of other companies in our industry;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- new laws or regulations or new interpretations of laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in general conditions in the United States and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and
- sales of common stock by our directors and executive officers.

In addition, in recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

In the past, following periods of market volatility in the price of a company's securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

There is no existing market for our common stock and we do not know if one will develop to provide you with adequate liquidity.

Prior to this offering, there has not been a public market for our common stock. An active market for our common stock may not develop following the completion of this offering, or if developed, may not be maintained. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for the shares will be determined by negotiations between us and the representative of the underwriters and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell shares of our common stock at prices equal to or greater than the price paid by you in this offering.

Future sales of our common stock, including shares purchased in this offering, in the public market could lower our stock price.

Sales of substantial amounts of our common stock in the public market following this offering by our existing stockholders, upon the exercise of outstanding stock options or by persons who acquire shares in this offering may adversely affect the market price of our common stock. Such sales could also create public perception of difficulties or problems with our business. These sales might also make it more difficult for us to sell securities in the future at a time and price that we deem necessary or appropriate.

Upon the completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters' overallotment option and no exercise of outstanding options after December 31, 2004, of which:

- all of the shares we are selling in this offering may be resold in the public market immediately after this offering, other than shares purchased by our affiliates; and

- shares will be "restricted securities" as defined in Rule 144 under the Securities Act eligible for sale in the public market pursuant to the provisions of Rule 144, of which shares are subject to lock-up agreements and will become available for resale in the public market beginning 180 days after the date of this prospectus.

With limited exceptions, these lock-up agreements prohibit a stockholder from selling, contracting to sell or otherwise disposing of any common stock or securities that are convertible or exchangeable for common stock for 180 days from the date of this prospectus, although Merrill Lynch may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements. As a result of these lock-up agreements, notwithstanding earlier eligibility for sale under the provisions of Rule 144, none of these shares may be sold until 180 days after the date of this prospectus.

We have reserved up to 5% of the shares to be sold in this offering for sale to certain of our current stockholders, and to certain of our business associates and related persons. If any of our current stockholders or certain option holders subject to lock-up agreements purchase these reserved shares, the shares will be restricted from sale under the lock-up agreements. If any of these shares are purchased by persons who are not current stockholders, such shares will not be subject to lock-up agreements.

As restrictions on resale end, our stock price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These sales might also make it more difficult for us to sell securities in the future at a time and at a price that we deem appropriate.

Following the consummation of the offering, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

We currently anticipate that we will retain all of our future earnings, if any, to fund the operation and expansion of our business and to use as working capital and for other general corporate purposes. Our board of directors will determine whether to pay dividends in the future based on conditions then existing, including our earnings, financial condition and capital requirements, the availability of third-party financing and the financial responsibility standards prescribed by the DOE, as well as any economic and other conditions that our board of directors may deem relevant. In addition, our ability to declare and pay dividends is subject to certain restrictions under our new credit agreement.

Anti-takeover provisions in our certificate of incorporation, our bylaws and New Jersey law could discourage a change of control that our stockholders may favor, which could negatively affect our stock price.

Provisions in our certificate of incorporation and our bylaws and applicable provisions of the New Jersey Business Corporation Act may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. For example, applicable provisions of the New Jersey Business Corporation Act may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of five years after the person becomes an interested stockholder. Furthermore, we expect that our amended and restated certificate of incorporation and amended and restated bylaws, which will be in effect at the time this offering is consummated, will:

- authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors;
- require super-majority voting to effect amendments to certain provisions of our certificate of incorporation or bylaws, including those provisions concerning the composition of the board of directors and certain business combinations;
- limit who may call special meetings of both the board of directors and stockholders;
- prohibit stockholder action by non-unanimous written consent and otherwise require all stockholder actions to be taken at a meeting of the stockholders;
- establish advance notice requirements for nominating candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholders' meetings; and
- require that vacancies on the board of directors, including newly created directorships, be filled only by a majority vote of directors then in office.

Our principal stockholder will continue to own a large percentage of our voting stock after this offering, which may allow it to control substantially all matters requiring shareholder approval.

Immediately after this offering, Stonington, our principal stockholder, will directly or indirectly hold approximately % of our outstanding shares. Accordingly, it could control us through its ability to determine the outcome of the election of our directors, to amend our certificate of incorporation and bylaws and to take other actions requiring the vote or consent of stockholders, including mergers, going private transactions and other extraordinary transactions, and the terms of any of these transactions. The ownership positions of this stockholder may have the effect of delaying, deterring or preventing a change in control or a change in the composition of our board of directors.

We will have broad discretion in applying a portion of the net proceeds of the offering and may not use those proceeds in ways that will enhance our market value.

Our management has broad discretion over the use of the portion of the proceeds that we receive from this offering. If we do not apply these funds effectively, we may lose significant business opportunities. Furthermore, our stock price could decline if the market does not view our use of the proceeds from the offering favorably.

You will suffer immediate and substantial dilution.

The initial public offering price per share is substantially higher than the pro forma net tangible book value per share immediately after the offering. As a result, you will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities. At the offering price of $ per share, you will incur immediate and substantial dilution in the amount of $ per share. We also have outstanding stock options to purchase shares of our common stock at a weighted average exercise price of $5.92 per share. To the extent these options are exercised, there will be further dilution.

FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operating results and future economic performance; and statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- actual or anticipated fluctuations in our results of operations;
- our failure to comply with the extensive regulatory framework applicable to our industry;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- risks associated with the opening of new campuses;
- risks associated with integration of acquired schools, including NETI;
- industry competition;
- our ability to continue to execute our growth strategies;
- conditions and trends in our industry;
- general and economic conditions; and
- other factors discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Regulatory Environment."

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws.

USE OF PROCEEDS

The proceeds from the sale of the shares of common stock offered by us will be approximately $ million, based on an estimated initial public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of the shares to be sold by the selling stockholders.

The primary purposes of the offering are to create a public market for our common stock, obtain additional capital and repay outstanding indebtedness under our new credit agreement which we entered into with a syndicate of banks on February 15, 2005 with a five year term. We expect to use the net proceeds from this offering primarily to pay down amounts outstanding under our new credit agreement and for working capital and general corporate purposes, which may include the expansion of existing facilities, strategic acquisitions and the development and introduction of new programs. Any amounts repaid under our new credit agreement may be reborrowed at any time. As of December 31, 2004, we had outstanding borrowings of $35.8 million and $4.0 million in letters of credit under our previous credit agreement. As of February 28, 2005, we had outstanding borrowings of $30.0 million and $4.1 million of outstanding letters of credit under our new credit agreement. We paid interest on the amounts outstanding under our new credit agreement at an adjusted LIBOR rate, as defined in the new credit agreement, of 4.07% as of February 28, 2005. Amounts under the new credit agreement were primarily borrowed for working capital and general corporate purposes, as well as to repay amounts outstanding under our previous credit agreement, primarily borrowed in connection with our acquisition of Southwestern and NETI. See "Description of Credit Agreement." Management will have broad discretion in the allocation of the net proceeds of this offering.

The amounts actually expended for each purpose and the timing of such expenditures will depend on a number of factors, including our realization of the different elements of our growth strategy and the amount of cash generated by our operations. Pending their use as described above, the proceeds of the offering will be invested in short-term, interest-bearing securities.

An affiliate of Harris Nesbitt Corp. is the administrative agent and a lender under our new credit agreement and Fleet National Bank, an affiliate of Banc of America Securities LLC, is also a lender under our new credit agreement, and will receive a portion of the net proceeds of this offering when we repay the amounts outstanding under the new credit agreement. See "Underwriting—Other Relationships."

DIVIDEND POLICY

We have never declared or paid dividends on our common stock. Following consummation of this offering, we do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. Instead, we currently anticipate that we will retain all of our future earnings, if any, to fund the operation and expansion of our business and to use as working capital and for other general corporate purposes. Our board of directors will determine whether to pay dividends in the future based on conditions then existing, including our earnings, financial condition and capital requirements, the availability of third-party financing and the financial responsibility standards prescribed by the DOE, as well as any economic and other conditions that our board of directors may deem relevant. In addition, our ability to declare and pay dividends is subject to certain restrictions under our new credit agreement.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of December 31, 2004:

- on an actual basis;
- on a pro forma basis, giving effect to our acquisition of NETI as if this acquisition had occurred on December 31, 2004; and
- on a pro forma as adjusted basis, giving further effect to the sale of shares of our common stock in this offering (at an estimated initial public offering price of $ per share, the mid-point of the range set forth on the cover of this prospectus) and the application of the proceeds of the sale as discussed under "Use of Proceeds."

You should read this table together with the "Use of Proceeds," "Unaudited Pro Forma Financial Information," "Selected Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Capital Stock" and our consolidated financial statements, along with the notes thereto, included elsewhere in this prospectus.

	As of December 31, 2004		
	Actual	Pro Forma	Pro Forma As Adjusted
		(dollars in thousands)	
Cash and cash equivalents	$ 41,445	$ 23,188	$
Debt:			
Credit agreement(1)	35,750(2)	35,750	
Finance obligation	9,672	9,672	
Capital leases—computers	1,294	1,294	
Automobile loans	113	113	
Total debt	46,829	46,829	
Stockholders' equity:			
Common stock, no par value per share, 50,000,000 shares authorized (actual, pro forma and pro forma as adjusted); 21,698,785 shares issued and outstanding (actual and pro forma); shares issued and outstanding (pro forma as adjusted)	62,385	62,385	
Additional paid-in capital	3,359	3,359	
Accumulated deficit	(7,477)	(7,477)	
Less loan receivable from stockholders(3)	(181)	(181)	
Total stockholders' equity	58,086	58,086	
Total capitalization	$ 104,915	$ 104,915	$

(1) On February 15, 2005, we entered into a $100 million revolving credit agreement (including amounts available for letters of credit up to an aggregate of $20 million) with a syndicate of banks. Amounts repaid under our new credit agreement may be reborrowed at any time until expiration of our new credit agreement in February 2010. Amounts outstanding under our new credit agreement as of February 28, 2005 were $30.0 million and letters of credit outstanding of $4.1 million. See "Description of Credit Agreement" for a description of the new credit agreement.

(2) Represents amounts outstanding under our previous credit agreement.

(3) On January 1, 2002, certain of our executive officers issued personal recourse secured promissory notes in connection with their purchase of shares of our common stock. Approximately $251,000 of this amount had been repaid as of December 31, 2004. As of March 24, 2005, all amounts outstanding under these loans have been repaid.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after the offering. Dilution results from the fact that the per share offering price of the common stock is substantially in excess of the book value per share attributable to the existing stockholders for the presently outstanding stock. Our net tangible book value at December 31, 2004 was $58.1 million, or $2.52 per share of common stock. Our pro forma net tangible book value at December 31, 2004, after giving effect to the NETI acquisition was $58.1 million, or $2.52 per share of common stock. After giving effect to our sale of shares of common stock offered by this prospectus at an estimated initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus) and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of December 31, 2004 would have been $ million, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to investors purchasing common stock in the offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share of common stock		$
Net tangible book value per share of common stock at December 31, 2004	2.52	
Pro forma net tangible book value per share of common stock at December 31, 2004	2.52	
Increase in pro forma net tangible book value per share of common stock attributable to this offering		
Pro forma net tangible book value per share of common stock after this offering		
Dilution per share of common stock to new investors		$

The following table summarizes, on a pro forma basis as of December 31, 2004, the differences between existing stockholders and the new investors with respect to the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid before deducting the underwriting discounts and commissions and our estimated offering expenses.

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
	(dollars in thousands, except per share amount)				
Existing holders of capital stock			$		$
Investors purchasing common stock in the offering			$		$
Total		100%	$	100%	$

The discussion and tables above assume no exercise of outstanding stock options after December 31, 2004. As of the consummation of this offering, we expect to have options outstanding to purchase a total of 2,022,495 shares of common stock, with a weighted average exercise price of $5.92 per share. To the extent that any of these options are exercised, there will be further dilution to new investors. See "Description of Capital Stock" and Note 9 of the notes to our consolidated financial statements appearing elsewhere in this prospectus.

If the underwriters' overallotment option is exercised in full:

- the percentage of our shares of common stock held by our existing holders of capital stock will decrease to shares, or approximately % of the total number of shares of common stock outstanding after this offering; and
- the number of shares of common stock held by investors purchasing common stock in this offering will increase to shares, or approximately % of the total number of shares of common stock outstanding after this offering.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information for the year ended December 31, 2004 is derived from (1) our historical consolidated financial statements (included elsewhere in this prospectus), (2) the historical financial statements of Southwestern for the period from January 1, 2004 until our acquisition of Southwestern on January 23, 2004 (not included in this prospectus), and (3) the historical financial statements of NETI for the year ended and as of December 31, 2004 (not included in this prospectus). Separate balance sheet data for Southwestern is not presented because such data is already reflected in our historical consolidated balance sheet as of December 31, 2004. The unaudited pro forma financial statements should be read in conjunction with our audited consolidated financial statements and related notes thereto, included elsewhere in this prospectus.

The unaudited pro forma statement of operations data for the year ended December 31, 2004 give effect to the acquisitions of Southwestern and NETI as if each had occurred on January 1, 2004. The unaudited pro forma balance sheet data for year ended December 31, 2004 give effect to the acquisition of NETI as if it had occurred on December 31, 2004. We accounted for the acquisitions of Southwestern and NETI under the purchase method of accounting. The unaudited pro forma financial statements presented below do not reflect any anticipated operating efficiencies or cost savings from the integration of Southwestern or NETI into our business. The unaudited pro forma as adjusted balance sheet data give effect to the NETI acquisition and give further effect to the sale of shares of our common stock in this offering at an estimated initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus) and the application of the proceeds as discussed under "Use of Proceeds."

The unaudited pro forma consolidated financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions we believe are reasonable, but are subject to change. We have made, in our opinion, all adjustments that are necessary to present fairly the pro forma information. The unaudited consolidated pro forma financial statements do not purport to represent what our actual results of operations or financial position would have been if the acquisition and related transactions described above had occurred on such dates or to project our results of operations or financial position for any future period.

	For the Year Ended December 31, 2004				
	Historical	South-western(1)	NETI(2)	Adjustments(3)	Pro Forma
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 261,275	$ 4	$ 14,944		$ 276,223
Costs and expenses:					
Educational services and facilities	104,843	68	7,870	423(a)	113,204
Selling, general and administrative(4)	130,941	111	5,085	433(b)	136,570
Loss on sale of assets	368	—		—	368
Total costs and expenses	236,152	179	12,955	(856)	250,142
Operating income	25,123	(175)	1,989	(856)	26,081
Interest income	104	1	28		133
Interest expense	(3,007)	0	(38)	(1,151)(c)(d)	(4,196)
Income (loss) before income taxes	22,220	(174)	1,979	(2,007)	22,018
Provision (benefit) for income taxes	9,242	—	0	84(e)(f)	9,158
Net income (loss)	$ 12,978	$ (174)	$ 1,979	$ (1,923)	$ 12,860
Income (loss) from continuing operations per share:					
Basic	$ 0.60	$ (0.01)	$ 0.09	$ (0.09)	$ 0.59
Diluted	0.56	(0.01)	0.09	(0.08)	0.56
Weighted average shares:					
Basic	21,676	—	—	—	21,676
Diluted	23,095	—	—	—	23,095
Other Data:					
Capital expenditures	$ 23,813	—	—	—	$ 23,813
Number of campuses	28		4	—	32
Average student population	16,266	—	—	—	17,362

	As of December 31, 2004						
	Historical	South-western(1)	NETI(2)	Adjustments(3)	Pro Forma	The Offering	Pro Forma As Adjusted
	(dollars in thousands)						
Balance Sheet Data (at end of period):							
Cash and cash equivalents	$ 41,445	—	$ 376	$ (18,633)(g)	$ 23,188	$	$
Working capital (deficit)(5)	4,570	—	(1,869)	(19,885)(h)	(16,184)		
Total assets	162,729	—	9,753	(82)(i)	172,564		
Total debt(6)	46,829	—	—	—	46,829		
Total shareholders' equity	58,086	—	(830)	(170)(j)	58,086		

(1) Data for the period from January 1, 2004 to January 23, 2004 includes certain reclassifications to conform to our historical presentation.

(2) Historical data for the year ended December 31, 2004 includes certain reclassifications to conform to our presentation.

(3) Represents adjustments to reflect the following:

(a) Represents $0.023 million in the remaining amortization of $0.3 million in fair market value of student contracts acquired in connection with the Southwestern acquisition on January 23, 2004 and the amortization of $0.4 million representing the preliminary allocation of fair market value of student contracts and other identified intangible assets acquired in connection with the NETI acquisition on January 11, 2005.

(b) Represents the current amortization of $1.3 million, which represents the preliminary allocation of fair market value of a non-compete agreement acquired in connection with the NETI acquisition on January 11, 2005. The non-compete agreement is being amortized over a period of three years.

(c) Represents pro rata interest expense for a period of 23 days on $14.5 million of borrowings under our previous credit agreement to finance the acquisition of Southwestern (assuming those borrowings were outstanding as of January 1, 2004 at an average annual rate of 5.50%).

(d) Represents interest expense on $20.0 million of borrowings under our previous credit agreement to finance the acquisition of NETI (assuming those borrowings were outstanding as of January 1, 2004 at an average annual rate of 5.50%).

(e) Represents the tax effects of presenting Southwestern as a taxpayer giving effect to the historical income statement for the period indicated as well as the pro forma income statement adjustments at an effective tax rate of 39%. Prior to our acquisition, Southwestern was an S-Corporation and therefore did not pay income taxes.

(f) Represents the tax effects of presenting NETI as a taxpayer giving effect to the historical income statement for the period indicated as well as the pro forma income statement adjustments at an effective tax rate of 39%. Prior to our acquisition, NETI was an S-Corporation and therefore did not pay income taxes.

(g) Represents the cash payments made to the former owners of NETI at closing. $1.0 million had previously been paid on deposit.

(h) Reflects the cash purchase for the NETI acquisition, including the release of the $1.0 million cash deposit and $0.25 million of costs of the NETI acquisition not reflected in the cash purchase price.

(i) Represents the net impact of the purchase accounting adjustments.

(j) Represents the elimination of NETI's shareholder's equity after giving effect to the purchase accounting adjustments.

(4) Selling, general and administrative expenses includes (a) a $2.1 million charge for the year ended December 31, 2004 to give effect to the one-time write-off of deferred offering costs, (b) compensation costs of approximately $1.8 million for the year ended December 31, 2004 related to the adoption of SFAS No. 123, "*Accounting for Stock Based Compensation*" and (c) a $0.7 million one-time non cash charge for the year ended December 31, 2004 related to the timing of rent expense for our schools during the period of construction of leasehold improvements and to align the depreciation lives of our leasehold improvements to the terms of our noncancellable leases, including renewal options.

(5) Working capital (deficit) is defined as current assets less current liabilities.

(6) Total debt consists of long-term debt including current portion, capital leases, auto loans and a finance obligation of $9.7 million for each of the years in the three-year period ended December 31, 2004 incurred in connection with a sale-leaseback transaction as further described in Note 8 to the consolidated financial statements included elsewhere in this prospectus.

SELECTED FINANCIAL INFORMATION

The following table sets forth our selected historical consolidated financial and operating data as of the dates and for the periods indicated. You should read these data together with "Unaudited Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto included elsewhere in this prospectus. The selected historical consolidated statement of operations data for each of the years in the three-year period ended December 31, 2004 and the historical consolidated balance sheet data as of December 31, 2003 and 2004 have been derived from our audited consolidated financial statements which are included elsewhere in this prospectus. The selected historical consolidated statements of operations data for the fiscal years ended December 31, 2000 and 2001 and historical consolidated balance sheet data as of December 31, 2000, 2001 and 2002 have been derived from our consolidated financial information not included in this prospectus. Our historical results are not necessarily indicative of our future results.

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(dollars and shares in thousands, except per share amounts)				
Statement of Operations Data:					
Revenues	$ 81,541	$ 105,738	$ 139,201	$ 198,881	$ 261,275
Costs and expenses:					
Educational services and facilities	37,120	52,952	66,580	85,201	104,843
Selling, general and administrative(1)	42,334	59,019	71,753	97,714	130,941
(Gain) loss on sale of assets	—	—	(1,082)	(22)	368
Total costs and expenses	79,539	111,971	137,251	182,893	236,152
Operating income (loss)	2,002	(6,233)	1,950	15,988	25,123
Gain on sale of securities	—	—	—	211	—
Interest income	772	310	212	133	104
Interest expense	(479)	(1,664)	(2,937)	(2,758)	(3,007)
Income (loss) before income taxes	2,295	(7,587)	(775)	13,574	22,220
Provision (benefit) for income taxes	1,000	(2,942)	(101)	5,355	9,242
Net (loss) income	$ 1,295	$ (4,645)	$ (674)	$ 8,219	$ 12,978
Income (loss) share:					
Basic	$ 0.08	$ (0.22)	$ (0.03)	$ 0.38	$ 0.60
Diluted	0.08	(0.22)	(0.03)	0.37	0.56
Weighted average shares:					
Basic	15,987	21,355	21,662	21,667	21,676
Diluted	15,987	21,355	21,662	22,364	23,095
Other Data:					
Capital expenditures	$ 2,183	$ 7,322	$ 3,598	$ 13,154	$ 23,813
Depreciation and amortization	3,249	5,474	7,201	9,879	10,749
Number of campuses	13	23	23	23	28
Average student population	5,799	7,203	9,155	12,487	16,266
Balance Sheet Data:					
Cash and cash equivalents	$ 24,952	$ 7,400	$ 11,079	$ 48,965	$ 41,445
Working capital (deficit)(2)	9,673	(12,710)	(11,287)	13,402	4,570
Total assets	62,918	89,119	92,562	139,355	162,729
Total debt(3)	2,705	26,596	22,682	43,060	46,829
Total shareholders' equity	36,800	34,096	33,905	42,924	58,086

(1) Selling, general and administrative expenses includes (a) a $2.1 million charge for the year ended December 31, 2004 to give effect to the one-time write-off of deferred offering costs, (b) compensation costs of approximately $0.5 million, $0.8 million and $1.8 million for the years ended December 31, 2002, 2003 and 2004, respectively, related to the adoption of SFAS No. 123, "Accounting for Stock Based Compensation" and (c) a $0.7 million one-time non cash charge for the year ended December 31, 2004 related to the timing of rent expense for our schools during the period of construction of leasehold improvements and to align the depreciation lives of our leasehold improvements to the terms of our noncancellable leases, including renewal options.

(2) Working capital (deficit) is defined as current assets less current liabilities.

(3) Total debt consists of long-term debt including current portion, capital leases, auto loans and a finance obligation of $9.7 million for each of the years in the four-year period ended December 31, 2004 incurred in connection with a sale-leaseback transaction as further described in Note 8 to the consolidated financial statements included elsewhere in this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We are a leading and diversified for-profit provider of career-oriented post-secondary education. We offer recent high school graduates and working adults degree and diploma programs in four areas of study: automotive technology, allied health, skilled trades and business and information technology. As of December 31, 2004, we enrolled 16,664 students at our 28 campuses across fourteen states. On January 11, 2005 we purchased NETI, expanding our presence to 32 campuses across fifteen states. Our campuses primarily attract students from their local communities and surrounding areas, although our four destination schools attract students from across the United States, and in some cases, from abroad.

We have experienced significant growth in recent years both organically and through acquisitions. Our organic growth has been achieved by increasing the breadth of our program offerings, increasing our marketing efforts, expanding existing facilities and starting new schools. In 2001, we acquired eight schools that we consider start-ups because they had no students or faculty at the time of acquisition. We initially opened these schools with only IT programs, but as a result of the decrease in demand for IT programs, we began adding allied health programs in the third quarter of 2002. While our profitability on a consolidated basis was negatively impacted by the start up of these schools in 2002, these start-up schools reached breakeven profitability in the fourth quarter of 2003 and as a group contributed $31.6 million and $42.8 million of revenues in 2003 and 2004, respectively. As we continue to grow the student population in these schools, we expect the profitability of these schools to continue to improve.

From 1999 through December 31, 2004, we obtained nine additional schools through our acquisitions of DADC in 2000 (one school), CEI in 2001 (two schools), NADC in 2003 (one school) and Southwestern in 2004 (five schools). In addition, on January 11, 2005, we acquired the rights, title and interest in the assets used in the conduct and operation of NETI for a purchase price of approximately $20.0 million. NETI operates four schools in New Britain, Hamden, Shelton and Cromwell, Connecticut. Our campuses, a majority of which serve major metropolitan markets, are located throughout the United States. Four of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas. All of our schools are nationally accredited and eligible to participate in federal financial aid programs. Southwestern received and signed a provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE or, alternatively, to receive a new agreement to be signed by it and the DOE. NETI received and signed a temporary provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE.

In evaluating potential acquisitions, we seek to identify schools with the potential for program replication at our existing campuses, new areas of study, new markets with attractive growth opportunities and advanced degree programs. In many cases, these schools are under-managed and under-capitalized. We have historically been successful in integrating and growing acquired schools by leveraging our sales and marketing expertise, business management systems and our experienced management team. For example, in 2000, we acquired DADC which had a student population of 343, and as of December 31, 2004, we had grown its student population in excess of 200% to 1,083 students. As we continue to make and integrate our acquisitions, such as Southwestern and NETI, we expect our student population to continue to grow.

Our revenues consist primarily of student tuition and fees derived from the programs we offer and are presented as revenues after reductions related to scholarships and refunds for students who withdraw from our programs prior to specified dates. We recognize revenues from tuition and one-time fees, such as application fees, ratably over the length of a program. We also earn revenues from our bookstores, dormitories, cafeterias and contract training services. These non-tuition revenues are recognized upon delivery of goods or as services are performed and represent less than 10% of our revenues.

Tuition varies by school and by program and on average we increase tuition once a year by 2% to 5%. Our ability to raise tuition is influenced by the demand for our programs and by the rate of tuition increase at other post-secondary schools. If historical trends continue, we expect to be able to continue to raise tuition annually at comparable rates.

Our revenues are directly dependent on our average number of students enrolled and the particular courses they are taking. Our enrollment is influenced by the number of new students starting, re-entering, graduating from and withdrawing from our schools. In addition, our programs range from 24 to 100 weeks and students attend classes for different amounts of time per week depending on the school and program in which they are enrolled. Because we start new students every month, our total student population changes monthly. The number of students enrolling or re-entering our programs each month is driven by the demand for our programs, the effectiveness of our marketing and advertising, the availability of financial aid and other sources of funding, the number of recent high school graduates and seasonality. Our retention and graduation rates are influenced by the quality and commitment of our teachers and student services personnel, the effectiveness of our programs, the placement rate and success of our graduates and the availability of financial aid. Although similar courses have comparable tuition rates, the tuition rates vary among our numerous programs. As more of our schools receive approval to offer associate degree programs, which are longer than our diploma degree programs, we would expect our average enrollments and the average length of stay of our students to increase.

The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The largest of these programs are Title IV programs which represented approximately 81% of our cash receipts relating to revenues in 2004.

The operating expenses associated with an existing school do not increase proportionally as the number of students enrolled at the school increases. We categorize our operating expenses as (1) educational services and facilities and (2) selling, general and administrative.

- Major components of educational services and facilities expenses include faculty compensation and benefits, compensation and benefits of other campus administration employees, facility rent, maintenance, utilities, depreciation and amortization of property and equipment used in the provision of education services and other costs directly associated with teaching our programs and providing educational services to our students.

- Selling, general and administrative expenses include compensation and benefits of employees who are not directly associated with the provision of educational services (such as executive management, finance and central accounting, legal, human resources and business development), marketing and student enrollment expenses (including compensation and benefits of personnel employed in sales and marketing and student admissions), costs to develop curriculum, costs of professional services, bad debt expense, rent for our corporate headquarters, depreciation and amortization of property and equipment that is not used in the provision of educational services and other costs that are incidental to our operations. All marketing and student enrollment expenses are recognized in the period incurred. Costs related to the opening of new facilities, excluding related capital expenditures, are expensed in the period incurred.

Acquisitions and Start-ups

Acquisitions have been, and will continue to be, a component of our growth strategy. We have a team of professionals who conduct financial, operational and regulatory due diligence as well as a team that integrates acquisitions with our policies, procedures and systems. From January 1, 1999 through December 31, 2004, we have added nine schools through our acquisitions of DADC in 2000 (one school), CEI in 2001 (two schools), NADC in 2003 (one school) and Southwestern in 2004 (five schools). Our acquisition of NETI, which closed on January 11, 2005, added another four schools, bringing our total acquisitions to thirteen schools.

On October 25, 2000, we purchased the rights, title and interest in the assets used in the conduct and operation of Denver Automotive & Diesel College for $1.3 million in cash, including costs related to the acquisition. We used our existing cash balances to complete the transaction. DADC was an under-managed school that we have grown from 343 students at the end of 2000 to 1,083 students at December 31, 2004 by introducing better management and by implementing our field-based recruiting and television marketing programs.

On March 16, 2001, we purchased the rights, title, and interest in the assets used in the conduct and operation of five schools by Computer-Ed, Inc. for $2.5 million in cash, including costs related to the acquisition. We used our existing cash balances to complete this transaction. We merged two of these schools into one of the Computer Learning Centers, Inc. schools described below, and merged the other school into one of the existing Computer-Ed, Inc. schools we acquired. We continue to operate the remaining two schools under our CEI brand name. At the time of acquisition, these schools primarily offered IT programs and now offer business and information technology and allied health programs. This acquisition accelerated our entrance into the New England market.

In two transactions taking place on March 9, 2001 and April 6, 2001, we purchased out of bankruptcy the assets comprising nine schools operated by Computer Learning Centers, Inc. for a total of $20.7 million in cash, including costs related to the acquisitions. These acquisitions were funded by existing cash and by borrowings under our then existing credit facility. We considered eight of these nine schools to be start-ups at the time of their acquisition because they had no students or faculty at the time of acquisition. We merged one of our existing Cittone campuses into the ninth school located at Paramus, New Jersey and renamed it Cittone. We received all regulatory approvals and hired staff by the end of 2001 so that all of these schools were operational under our Cittone Institute or CEI brand names. These schools offer business and information technology and allied health programs. This acquisition enabled us to rapidly expand into several of the largest markets in the United States with well-located, proven sites.

On February 14, 2003, we acquired Nashville Auto Diesel College for approximately $7.6 million including costs related to the acquisition, net of $4.1 million of cash acquired. This acquisition was funded by available cash and by borrowings under our previous credit agreement. NADC offers associate and diploma programs in automotive and diesel mechanics and collision repair. This is our only school that owns its dormitories and, like our other destination schools in Indianapolis and Denver, the vast majority of NADC students come from outside the local market. We have been able to increase the student population and profitability in a short period of time by introducing new management techniques and through television marketing. This acquisition gave us an additional destination campus, entry into the Nashville geographic market and further expanded our auto business.

On January 23, 2004 we completed the acquisition of Southwestern for approximately $14.5 million in cash, including costs related to the acquisition. This acquisition was funded from borrowings under our previous credit agreement. This acquisition enabled us to enter the Ohio and Kentucky markets.

On January 11, 2005 we acquired the rights, title and interest in the assets used in the conduct and operation of NETI for approximately $20 million including costs related to the acquisition. This acquisition was funded by borrowings under our existing credit facility. NETI operates four schools in New Britain, Hamden, Shelton and Cromwell, Connecticut.

The following chart summarizes our recent acquisition and start-up transactions:

		Classification of Schools			
	Year of Acquisition	Merged/ Relocated	Start ups	Acquisitions	Total Number of Schools
DADC	2000	—	—	1	1
CEI	2001	3(1)	—	2	5
Computer Learning Centers(2)	2001	1(3)	8	—	9
NADC	2003	—	—	1	1
Southwestern	2004	—	—	5	5
NETI	2005	—	—	4	4
Total		4	8	13	25

(1) Students from three CEI facilities were merged into three other Lincoln campuses.

(2) Represents the acquisition out of bankruptcy of nine schools in two transactions in 2001, operated as CEI or Cittone.

(3) We moved our students from Mahwah, New Jersey into the acquired Paramus, New Jersey location.

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 policies 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. 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 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. 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 textbook sales, tool sales and contract training revenues are recognized as services are performed or goods are delivered. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition.

Allowance for uncollectible accounts. Based upon experience and judgment, we establish an allowance for uncollectible accounts with respect to tuition receivables. We use an internal group of collectors, augmented by third-party collectors as deemed appropriate, in our collection efforts. In establishing our allowance for uncollectible accounts, we consider, among other things, 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 for 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, or if we underestimate the allowances required, additional allowances may be necessary, which will result in increased selling, general and administrative expenses in the period such determination is made.

Our bad debt expense as a percentage of revenue for the years ended December 31, 2002, 2003 and 2004 was 4.1%, 3.7% and 3.5%, respectively.

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

Goodwill. We assess the impairment of goodwill in accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets.*" Accordingly, 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 an 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.

Stock-based compensation. We account for stock-based employee compensation arrangements in accordance with the provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*." Effective January 1, 2004, we elected to change our accounting policies from the use of the intrinsic value method of Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock-Based Compensation*" to the fair value-based method of accounting for options. As permitted under SFAS No. 148, "*Accounting for Stock-Based Compensation—Transitions and Disclosure—an amendment to SFAS Statement No. 123,*" we have elected to retroactively restate all periods presented. Because no market for our common stock exists, our board of directors determined the fair value of our common stock based upon several factors, including our operating performance, forecasted future operating results, and our expected valuation in an initial public offering.

In December 2004, the FASB issued SFAS No. 123R, "*Share Based Payment*," which eliminated the alternative to measure stock-based compensation awards using the intrinsic value approach permitted by Accounting Principles Board, or APB, Opinion No. 25, "*Accounting for Stock-Based Compensation*" and by SFAS No. 123. We have not yet determined what impact, if any, adoption of SFAS No. 123R will have on the consolidated financial statements; however, as discussed in Note 2, we adopted the fair value method of accounting for stock-based compensation provisions of SFAS No. 123 and the retroactive transitional provisions of SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosure.*" As a result, we have been recording stock-based compensation expense for all employee stock awards that were granted or modified.

Results of Operations for the Three Years Ended December 31, 2004

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

	Year Ended December 31,		
	2002	2003	2004
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Educational services and facilities	47.8%	42.8%	40.1%
Selling, general and administrative	51.6%	49.1%	50.1%
Loss (gain) on sale of assets	(0.8)%	0.0%	0.2%
Total costs and expenses	98.6%	91.9%	90.4%
Operating income	1.4%	8.1%	9.6%
Gain on sale of securities	0.0%	0.0%	0.0%
Interest income	0.2%	0.1%	0.1%
Interest expense	(2.1)%	(1.4)%	(1.2)%
Income (loss) before income taxes	(0.5)%	6.8%	8.5%
Provision (benefit) for income taxes	(0.1)%	2.7%	3.5%
Net income (loss)	(0.4)%	4.1%	5.0%

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues. Our revenues for the year ended December 31, 2004 were $261.3 million, representing an increase of $62.4 million, or 31.4%, as compared to revenues of $198.9 million for the year ended December 31, 2003. Of this increase, approximately $7.6 million, or 12.2% of the increase, is the result of our acquisition of Southwestern on January 23, 2004, while the remainder of the increase was primarily due to a 22.4% increase in the average undergraduate full-time student enrollment, which increased to 15,280, exclusive of Southwestern, for the year ended December 31, 2004 as compared to 12,487 for the year ended December 31, 2003, and from tuition increases, which averaged between 2% to 5% annually depending on the program.

Educational services and facilities expenses. Our educational services and facilities expenses for the year ended December 31, 2004 were $104.8 million, representing an increase of $19.6 million, or 23.1%, as compared to educational services and facilities expenses of $85.2 million for the year ended December 31, 2003. The increases in educational services and facilities expense for the year ended December 31, 2004 were primarily due to our acquisition of Southwestern and higher average student enrollments, which required additional educational and operations personnel as well as books, tools and supplies. As a result, instruction compensation and benefit expenses increased by $9.9 million and books and tool expenses increased by approximately $2.1 million for the year ended December 31, 2004 compared to the prior year. For the year ended December 31, 2004, we also experienced increased rent expense of approximately $3.5 million over the prior year primarily due to increased square footage of several facilities coupled with the relocation of certain existing facilities to new larger facilities. Included in the $3.5 million increase described above is a charge of approximately $0.7 million relating to prior periods due to changes in the way we account for rent holidays in lease terms and the depreciable lives of leasehold improvements, as more fully described in Note 17 to the audited consolidated financial statements. Educational services and facilities expenses as a percentage of revenues decreased to 40.1% for the year ended December 31, 2004 from 42.8% for the year ended December 31, 2003, primarily due to improvements in the utilization of our existing facilities resulting from higher average student enrollments and increased student to teacher ratios.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the year ended December 31, 2004 was $130.9 million, an increase of $33.3 million, or 34.0%, as compared to selling, general and administrative expenses of $97.7 million for the year ended December 31, 2003. Approximately $5.1 million or 15.3% of the increase was due to the acquisition of Southwestern. The remainder of the increase was due to a (1) 11.4% increase in sales expense resulting mainly from incremental compensation and benefit expenses related to additional sales representatives, (2) a 22.7% increase in marketing costs as a result of increased advertising expenses associated with student leads and enrollment, (3) a 24.1% increase in student services expense as a result of our 22.4% growth in average student population, (4) a 124.1% increase in additional stock compensation expense recognized for the year ended December 31, 2004 as compared to the year ended December 31, 2003 in accordance with FASB No. 123 and (5) approximately $2.1 million from the write-off of deferred offering costs due to a delay in filing the registration statement for this offering. During 2004 we significantly increased our personnel, including our administrative personnel, in order to ensure we had the proper infrastructure to provide a quality education to our students and meet our stockholders' and investors' expectations.

Selling, general and administrative expenses as a percentage of revenue increased to 50.1% for the year ended December 31, 2004 from 49.1% for the year ended December 31, 2003. The increase in selling, general and administrative expenses as a percentage of revenue is directly attributable to the acquisition of Southwestern offset by better utilization of our staff. Excluding the Southwestern acquisition, the write-off of the deferred offering costs and the additional stock compensation expense, selling, general and administrative expenses would have decreased to 46.7% of revenue for the year ended December 31, 2004.

Interest expense. Our interest expense for the year ended December 31, 2004 was $3.0 million representing an increase of $0.2 million or 9.0% from $2.8 million at December 31, 2003. This increase was primarily due to an increase in the average debt balance outstanding under our previous credit agreement as a result of our acquisition of Southwestern.

Income taxes. Our provision for income taxes for the year ended December 31, 2004 was $9.3 million, or 41.6% of pretax income, compared to a $5.4 million, or 39.5% of pretax income, for the year ended December 31, 2003. The higher effective tax rate for the year ended December 31, 2004 is primarily attributable to our higher federal tax bracket in 2004.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Revenues increased by $59.7 million, or 42.9%, to $198.9 million in 2003 from $139.2 million for 2002. $21.9 million of this increase was attributable to the acquisition of NADC in February 2003. The remaining $37.8 million of the increase was primarily due to a 22.6% increase in our average student enrollment (excluding NADC) during the year and an increase in the average tuition charge per student resulting from tuition increases which averaged between 2% and 5% annually depending on the program. Our average student enrollment, excluding NADC, in 2003 was 11,227 compared with 9,155 for 2002 and, including NADC, our average student enrollment in 2003 was 12,487, a 36.4% increase over 2002. Growth in average student population was driven by increased demand for our allied health and automotive programs and partially offset by decreased demand for our IT programs.

Educational services and facilities expenses. Educational services and facilities expenses increased by $18.6 million, or 28.0%, to $85.2 million in 2003 from $66.6 million for 2002. Our acquisition of NADC accounted for 51.6%, or $9.6 million, of this increase. The remaining increase was primarily due to incremental education expenses, such as salaries for additional teachers and supplies, books and tools, related to higher average student enrollments. As a result, compensation and benefits expenses increased by $10.3 million for the year ended December 31, 2003 compared to the prior year. For the year ended December 31, 2003, we also experienced increased rent and utilities expense (approximately $1.1 million) due to increased square footage at several facilities. Educational services and facilities expenses as a percentage of revenues decreased to 42.8% of revenues for 2003 from 47.8% for 2002, primarily due to improvements in the utilization of our existing facilities resulting from higher average student enrollments and increased student-to-teacher ratios.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $26.0 million, or 36.2%, to $97.7 million in 2003 from $71.8 million for 2002. Approximately $9.5 million of this increase or 36.5% was attributed to our acquisition of NADC. The additional increases in selling, general and administration expenses for the year ended December 31, 2003 were primarily due to (1) a 17.9% increase in sales expense resulting mainly from incremental compensation and benefit expenses related to additional sales representatives, (2) an 18.6% increase in marketing costs as a result of increased advertising expenses associated with student leads and enrollment and (3) a 21.9% increase in student services expense as a result of our 22.6% growth in average student population. Selling, general and administrative expenses as a percentage of revenues decreased to 49.1% of revenues for 2003 from 51.6% of revenues for 2002 as we continued to increase the utilization and efficiencies of our facilities, in particular at our start-up and other schools offering allied health programs.

Interest expense and income. Interest expense decreased $0.2 million, or 6.1%, to $2.7 million for 2003 from $2.9 million in 2002. This decrease was primarily due to a decrease in our average debt balance outstanding under our previous credit agreement coupled with a decrease in the average interest rate paid. Although we financed the acquisition of NADC in 2003 using funds drawn on our previous credit agreement and our capital expenditures were higher in 2003 than in 2002, our improved cash flow from operations in 2003 decreased our average debt balance outstanding 7.8% to $10.7 million in 2003 as compared to $11.7 million in 2002. Interest income decreased $0.1 million or 37.3% to $0.1 million for 2003 from $0.2 million in 2002 primarily due to lower interest rates and lower cash balances.

Income taxes. Income tax provision for 2003 was $5.4 million, or 39.5% of pretax income, compared to an income tax benefit of $0.1 million in 2002.

Liquidity and Capital Resources

Our primary capital requirements are for facility expansion and maintenance, acquisitions and the development of new programs. Our principal sources of liquidity have been cash provided by operating activities and borrowings under our credit agreement. The following chart summarizes the principal elements of our cash flow for the past three fiscal years:

Cash Flow Summary

	Year Ended December 31,		
	2002	2003	2004
	(dollars in thousands)		
Net cash provided by operating activities	$ 9,723	$ 27,166	$ 26,674
Net cash used in investing activities:			
Capital expenditures	(3,598)	(13,154)	(23,813)
Acquisitions of a business, net of cash acquired	—	(7,583)	(14,498)
Other	1,443	12,057	0
Total net cash used in investing activities	(2,155)	(8,680)	(38,311)
Net cash provided by (used in) financing activities	(3,889)	19,400	4,117

Operating Activities

As of December 31, 2004, we had cash and cash equivalents of $41.4 million, compared to cash and cash equivalents of $49.0 million as of December 31, 2003. Our cash flows from operations have been reliable and adequate relative to our liquidity requirements. We finance our operating activities and our organic growth primarily through cash generated from operations. We finance acquisitions primarily through funding from credit facility borrowings, and cash generated from operations. Management anticipates that we will be able to satisfy the cash requirements of our ongoing business for the foreseeable future primarily with cash generated by operations, existing cash balances, the portion of the net proceeds of this offering remaining after any repayment of our indebtedness and, if necessary, borrowings under our new credit agreement.

Our primary source of cash is tuition collected from our students. Our students fund their tuition payments from a variety of sources including Title IV Programs, federal and state grants, private loans and their personal resources. The significant majority of students' tuition payments are derived from Title IV Programs. 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 30 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 30 to 84 weeks and may cover one or two academic years. 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 and the amount of the refund varies by state.

Net cash provided by operating activities is attributable primarily to net income adjusted for depreciation and amortization, non cash expenses and changes in working capital items.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003. Net cash provided by operating activities decreased to $26.7 million in 2004 from $27.2 million in 2003. This decrease of $0.5 million, or 1.8%, was primarily due to a $1.0 million increase in stock compensation expense in accordance with FASB No. 123 and a $1.8 million increase in our provision for doubtful accounts as a result of a $62.4 million increase in revenue offset by decreases that resulted from changes in working capital items, including deferred income taxes and accrued expenses.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002. Net cash provided by operating activities increased to $27.2 million in 2003 from $9.7 million in 2002. This increase of $17.5 million, or 179%, was primarily due to an $8.9 million increase in net income and a $2.4 million decrease in cash payments to the pension plan. The remainder of the increase resulted from changes in working capital items, including deferred income taxes and accrued expenses offset by increased accounts receivable and lower accounts payable and unearned tuition.

Investing Activities

We currently lease almost all of our campus and manufacturer training facilities. As we execute our growth strategy, strategic acquisitions of campus or manufacturer training facilities may be considered. In addition, although our current growth strategy is to continue our internal growth, strategic acquisitions of operations would 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 or issue additional debt or equity securities.

Our cash used in investing activities is primarily related to the purchase of property and equipment and in acquiring schools. Our capital expenditures primarily result from facility expansion, leasehold improvements, and investments in classroom and shop technology and in operating systems. On January 11, 2005, we acquired NETI for approximately $20 million in cash.

Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003. Net cash used in investing activities increased $29.6 million from $8.7 million for the year ended December 31, 2003 to $38.3 million for the year ended December 31, 2004. This increase is primarily attributable to an increase in cash used in acquisitions of $6.9 million in connection with the acquisition of Southwestern as well as the receipt in the prior year of approximately $3.0 million from the sale of securities. Additionally, $9.0 million was released from restricted cash for the year ended December 31, 2003 in connection with the refinancing of our credit agreement and we had an increase in capital expenditures of $10.7 million for the year ended December 31, 2004 from the year ended December 31, 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002. Capital expenditures increased to $13.2 million in 2003 from $3.6 million in 2002. This increase of $9.6 million is primarily attributable to constructing allied health training rooms in 13 of our schools and three training facilities for our electronic systems technician program.

Capital expenditures are expected to increase as we upgrade and expand current equipment and facilities or open new facilities to meet increased student enrollments. We opened a new 126,000 square foot automotive school in Indianapolis, Indiana in the second quarter of 2004 and a new 40,000 square foot allied health and business and information technology school in Lincoln, Rhode Island in October 2004. We also expect to take possession of our new 48,000 square foot Queens, New York automotive campus in the first quarter of 2005 with an expected opening date in the third quarter of 2005. Additionally, we are evaluating several other expansion opportunities. We anticipate capital expenditures relative to our mature locations to be approximately 8% to 10% of revenues. We expect to be able to fund these capital expenditures with cash generated from operating activities and proceeds from this offering.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Start-ups" for a discussion of our investments in acquisitions in recent years.

__Financing Activities__

Net cash provided by financing activities was $4.1 million for the year ended December 31, 2004 compared to $19.4 million for the year ended December 31, 2003. This decrease is mainly attributable to our borrowing $26.0 million less in 2004 than in 2003.

At December 31, 2004, our wholly-owned operating subsidiary, Lincoln Technical Institute, Inc., its subsidiaries and Southwestern had $35.8 million in loans outstanding and $4.0 million in letters of credit outstanding under our previous credit agreement that was entered into as of February 11, 2003 to refinance our prior credit agreement. At December 31, 2004, the interest rate on the amounts outstanding under our previous credit agreement ranged from 5.70% to 6.75%.

On February 15, 2005, we and our subsidiaries entered into a new credit agreement with a syndicate of banks. This new credit agreement provides for a $100 million revolving credit facility with a term of five years under which any outstanding borrowings bear interest at the rate of adjusted LIBOR (as defined in the new credit agreement) plus a margin that may range from 1.00% to 1.75% or a base rate (as defined in the new credit agreement) plus a margin that may range from 0.00% to 0.25%. At February 28, 2005, the interest rate on the amounts outstanding under the new credit agreement was 4.07%. The new credit agreement permits the issuance of letters of credit up to an aggregate amount of $20.0 million, the amount of which reduces the availability of permitted borrowings under the new credit agreement.

Our and our subsidiaries' obligations under the new credit agreement are secured by a lien on substantially all of our and our subsidiaries' assets and any assets that we and our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock. In addition to paying interest on outstanding principal under the new credit agreement, we are required to pay a commitment fee to the lenders with respect to the unused amounts available under the new credit agreement at a rate that may range from 0.25% to 0.40% per year. We are charged quarterly interest at an annual rate of 1.25% as of February 28, 2005 on the outstanding balance of letters of credit issued under the new credit agreement.

The new credit agreement contains various covenants, including a number of financial covenants. Furthermore, the new credit agreement contains customary events of default as well as an event of default in the event of the suspension or termination of Title IV Program funding for our and our subsidiaries' schools aggregating 10% or more of our EBITDA (as defined in the new credit agreement) or our and our subsidiaries' consolidated total assets and such suspension or termination is not cured within a specified period. See "Description of Credit Agreement."

The following table sets forth our long-term debt for the periods indicated:

	Year Ended December 31,		
	2002	2003	2004
	(dollars in thousands)		
Credit agreement(1)	$ 10,460	$ 32,000	$ 35,750
Automobile loans	132	132	113
Finance obligation	9,503	9,503	9,672
Capital leases—computers (with rates ranging from 6.97% to 19.9%)	2,587	1,425	1,294
Subtotal	22,682	43,060	46,829
Less current maturities	(2,085)	(3,624)	(5,311)
	$ 20,597	$ 39,436	$ 41,518

(1) This credit agreement was replaced by the new credit agreement described above on February 15, 2005.

Contractual Obligations

Long-Term Debt. As of December 31, 2004, our long-term debt consisted entirely of amounts borrowed under our previous credit agreement, 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 various equipment for varying periods through the year 2020 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of December 31, 2004:

	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	(dollars in thousands)				
Credit facility(1)	$ 35,750	$ 5,000	$ —	$ —	$ 30,750
Capital leases (including interest)	1,603	372	556	400	275
Operating leases	103,138	12,095	23,262	20,336	47,445
Finance obligation	15,207	1,258	2,517	2,517	8,915
Automobile Loans (including interest)	120	36	68	16	—
Total contractual cash obligations	$ 155,818	$ 18,761	$ 26,403	$ 23,269	$ 87,385

(1) We entered into a new credit facility on February 15, 2005, with a term of five years. The amount outstanding, as of February 28, 2005, under our new credit agreement was $30.0 million, in addition to $4.1 million in outstanding letters of credit.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2004.

Related Party Transactions

In 2003, we entered into a multi-year management service agreement with our majority stockholder, Stonington. In accordance with this agreement we pay Stonington Partners a management fee of $0.75 million in the first month of each year for management consulting and financial and business advisory services. Such services include valuing acquisitions and structuring their financing and assisting with new loan agreements. This agreement will terminate upon completion of this offering.

We had a consulting agreement with Hart Capital to advise us in identifying acquisition and merger targets and to assist with the due diligence reviews and negotiations with these targets. This agreement terminated by its terms in June 2004. Hart Capital is the managing member of Five Mile River Capital Partners, which is our second largest stockholder and Steven Hart, who is the President of Hart Capital, sits on our board of directors. We paid Hart Capital a monthly retainer, reimbursement of expenses and an advisory fee for its work on successful acquisitions or mergers. In accordance with the agreement, we paid Hart Capital approximately $0.7 million, $0.6 million and $0.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. Pursuant to the agreement, we may have future obligations to make certain payments to Hart Capital with respect to acquisition opportunities identified for us by Hart Capital prior to the termination of the agreement if we consummate any such acquisition opportunities within the twelve months following the termination of the agreement. We paid Hart Capital $0.3 million for its services in connection with the NETI acquisition, which closed on January 11, 2005.

Seasonality and Trends

Our net revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. Student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our first and second quarters and we have experienced large class starts in the third and fourth quarters and student attrition in the first half of the year. Our expenses, however, do not vary significantly with changes in our student population and net revenues. During the first half 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. We expect quarterly fluctuation in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change however, as a result of new school openings, new program introductions, increased enrollments of adult students or acquisitions.

Operating income is negatively impacted during the initial start-up phase of new campus expansions. We incur sales and marketing costs as well as campus personnel costs in advance of the campus facility opening. Typically we begin to incur such costs approximately 15 months in advance of the campus opening with the majority of such costs being incurred in the nine-month time period prior to a campus opening. During the current year, we initiated expansion efforts for one new campus, located in Queens, New York, which is scheduled to open in the third quarter of 2005.

Quantitative and Qualitative Disclosures About Market Risk

Our principal exposure to market risk relates to changes in interest rates. At February 28, 2005, we had $30.0 million of loans outstanding under our new credit agreement and $4.1 million in outstanding letters of credit, loans outstanding under our credit agreement accrue interest at a rate of 4.07%. Each 1% increase in this interest rate would add $0.3 million per year to our interest expense. We intend to use a portion of the proceeds from this offering to repay all outstanding amounts under our new credit agreement. See "Use of Proceeds."

Effect of Inflation

Inflation has not had a significant effect on our operations.

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. ("FIN") 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, we must recognize an initial liability for the fair value of the obligations we assume under the guarantee and must disclose that information in our financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. We had no guarantees which require disclosure under FIN 45 as of December 31, 2004.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21 "*Accounting for Revenue Arrangements with Multiple Deliverables*" ("EITF 00-21"). Under EITF 00-21, in order to separate the accounting for multiple deliverables (products or services) provided to a customer by a vendor, the deliverables must have separable value to the customer. EITF 00-21 is effective for us for revenue arrangements entered into after January 1, 2004. The adoption of EITF 00-21 did not have a material effect on the consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, as amended in December 2003 by FIN 46 (Revised) ("FIN 46-R"), which deferred the effective date until the first interim or annual reporting period ending after March 15, 2004. FIN 46-R requires the consolidation of an entity by an enterprise known as a "primary beneficiary," (i) if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, if they occur, receive a majority of the entity's expected residual returns, if they occur, or both and (ii) if the entity is a variable interest entity ("VIE"), as defined. An entity qualifies as a variable interest entity if (i) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise becomes involved with the entity and re-evaluated as of the date of triggering events, as defined. The adoption of FIN 46-R did not have a material effect on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Liabilities, Equity, or Both*," which establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. On November 7, 2003, the FASB deferred, indefinitely, the application of paragraphs 9 and 10 of SFAS No. 150 as it relates to mandatory redeemable non-controlling interests in consolidated subsidiaries in order to address a number of interpretation and implementation issues. The adoption of SFAS 150 did not have a material effect on the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R, "*Share Based Payment*," which eliminated the alternative to measure stock-based compensation awards using the intrinsic value approach permitted by APB Opinion No. 25, " *Accounting for Stock-Based Compensation*" and by SFAS No. 123. We have not yet determined what impact, if any, the adoption of SFAS No. 123R will have on the consolidated financial statements; however, as discussed in Note 2 to the financial statements included elsewhere in this prospectus, we adopted the fair value method of accounting for stock-based compensation provisions of SFAS No. 123 and the retroactive transitional provisions of SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosure.* " As a result, we have been recording stock-based compensation expense for all employee stock awards that were granted or modified.

In December 2004, the FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets*, *an Amendment of APB Opinion No. 29*, *Accounting for Nonmonetary Transactions*." SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and requires that such exchanges be measured at fair value, with limited exceptions. SFAS No. 153 amends APB Opinion No. 29 by eliminating the exception that required nonmonetary exchanges of similar productive assets be recorded on a carryover basis. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We will adopt the provisions of SFAS No. 153, as required.

BUSINESS

Overview

We are a leading and diversified for-profit provider of career-oriented post-secondary education as measured by total enrollment and number of graduates. We offer recent high school graduates and working adults degree and diploma programs in four principal areas of study: automotive technology, allied health, skilled trades and business and information technology. We believe that our diverse program offerings across a number of growing markets enable us to target a broad range of prospective students. We had 16,664 students enrolled as of December 31, 2004 and our average enrollment for the year ended December 31, 2004 was 16,266 students, an increase of 30.3% from average enrollment of 12,487 for the year ended December 31, 2003. For the year ended December 31, 2004 our revenues were $261.3 million, which represents a 31.4% increase from the year ended December 31, 2003. Excluding our acquisition of Southwestern College in January 2004, our revenues and average enrollments for the year ended December 31, 2004 would have increased by 27.5% and 22.4%, respectively, compared to the year ended December 31, 2003.

As of December 31, 2004 we operated 28 campuses under six well-established brands with long operating histories: Lincoln Technical Institute (LTI) (58 years of operation), Nashville Auto-Diesel College (NADC) (85 years), Denver Automotive & Diesel College (DADC) (41 years), The Cittone Institute (Cittone) (36 years), Career Education Institute (CEI) (21 years) and Southwestern College (Southwestern) (26 years). On January 11, 2005, we acquired NETI, which has been in operation for 65 years and has four campuses. Our campuses, the majority of which serve major metropolitan markets, are located in various areas throughout the United States. Four of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas. All of our schools are nationally accredited and eligible to participate in federal financial aid programs. Southwestern received and signed a provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE or, alternatively, to receive a new agreement to be signed by it and the DOE. NETI received and signed a temporary provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE.

On January 11, 2005, we acquired the rights, title and interest in the assets used in the conduct and operation of NETI for a purchase price of approximately $20.0 million. NETI operates four schools in New Britain, Hamden, Shelton and Cromwell, Connecticut and provides programs in automotive technology, allied health, business and information technology and skilled trades, including culinary arts and nursing. This acquisition expands our presence in the northeastern U.S. and increased the number of campuses we operate from 28 to 32.

We believe that we provide our students with the highest quality career-oriented training available for our areas of study in our markets. We offer programs in areas of study that we believe are typically underserved by traditional providers of post-secondary education and for which we believe there exists significant demand among students and employers. Furthermore, we believe our convenient class scheduling, career focused curricula and emphasis on job placement offer our students valuable advantages that have been neglected by the traditional academic sector. By combining substantial hands-on training with traditional classroom-based training led by experienced instructors, we believe we offer our students a unique opportunity to develop practical job skills in key areas of expected job demand. We believe these job skills enable our students to compete effectively for employment opportunities and to pursue on-going salary and career advancement.

History

We were founded in 1946 as Lincoln Technical Institute, Inc. Our programs were initially focused on automotive technical education and were subsequently expanded into adjacent fields including skilled trades, business and information technology and, most recently, allied health, in order to capitalize on our expertise in creating and delivering technical education programs. In June 1999, Stonington and Hart Capital acquired a controlling interest in us. Following the close of that transaction, David Carney was named our Chairman and Chief Executive Officer, and has worked with our senior management to refocus our business on growing our campuses and student population, expanding our areas of study and improving our operational performance. From 1999 through December 31, 2004, we have added nine schools through our acquisitions of DADC in 2000 (one campus), CEI in 2001 (two campuses), NADC in 2003 (one campus) and Southwestern in 2004 (five campuses). In that same time, we have also started eight new campuses and introduced more than 50 new programs of study across our campuses. In January 2005, we acquired NETI, which increased the number of our campuses by four. As a result of these initiatives, we have significantly grown and diversified our program offerings and student population.

Market Opportunity

The market for post-secondary education is large and growing. Expenditures on post-secondary education in the United States totaled over $350.8 billion in the 2003-2004 academic year. The number of students in the United States obtaining some form of post-secondary education totaled 17.0 million in fall of 2002, and The National Center for Education Statistics estimates enrollments will grow to approximately 18.2 million by 2013.

The career-oriented, post-secondary education market is a significant component of the post-secondary education market and we believe that demand is increasing due to, among other factors, a variety of demographic and economic factors, including an increasing demand for skilled workers, an increasing wage premium for skilled workers, a growing number of high school graduates and working adults seeking post-secondary education, and advantages in career prospects associated with post-secondary education. We believe that for-profit providers will continue to increase the percentage of students served as for-profit providers are able to offer students advantages relative to traditional academic colleges and universities, including convenient course scheduling, career-oriented curricula and strong job placement opportunities. According to the DOE, over the last 25 years, enrollments at for-profit post-secondary institutions have experienced a compounded annual growth rate of approximately 10%, serving 2.9% of total students enrolled in post-secondary institutions in 1999, versus enrollments at traditional colleges and universities that have had a compounded annual growth rate of only 1% over the same time period.

Government spending in support of post-secondary education is another significant factor supporting the growth in student enrollment. According to the DOE, total government aid to support this sector is estimated to have grown from $30 billion in the 1990-1991 academic year to over $73 billion in the 2000-2001 academic year, the last year for which data is available. The federal government provides the majority of this assistance in the form of aid or loans to qualified students. The remainder of government aid comes from state and local government sources. Private third-party lenders also provide student financial aid.

We believe there is significant and growing demand by employers for individuals possessing skills in each of our areas of study. The U.S. Department of Labor estimates that there will be approximately 1.7 million job openings each year from 2000 to 2010 in careers related to the areas of study we offer. Furthermore, we believe that each of our four areas of study have strong entry-level employment opportunities and ongoing career and salary advancement potential.

Automotive Technology. The U.S. Department of Labor estimates that there were approximately 840,000 working automotive service technicians and mechanics in the United States in 2000, and that this number is expected to increase by 18% from 2000 to 2010 due to aggregate growth and net replacements of 349,000 job openings during this period. In fact, the National Auto Dealers Association cites a current shortage of approximately 60,000 automotive technicians. Replacements are being driven by the rising average age of automotive technicians in the United States, which results in the creation of "replacement" job openings when a retiring technician exits the workforce. Growth is being driven by an increase in the number of automobiles and trucks, as well as rapid technological advancement that has raised hiring standards and increased the need for continuous training. Furthermore, the recurring need for, and expense of, training has led many automotive manufacturers to outsource training previously conducted in-house or in partnership with their local dealerships.

Allied Health. According to the U.S. Department of Labor, allied health represents one of the fastest growing segments of the domestic economy. Of the 30 fastest growing jobs from 2000-2010, the U.S. Department of Labor anticipates that 17 will be health-related. This growing demand for allied health professionals is being driven by technological advancements in healthcare, the aging population in the United States and an increasing awareness of health-related issues, all trends which we expect to continue for the foreseeable future. The U.S. Department of Labor estimates that there were over 3.2 million allied health positions in 2000 and projects that this number will increase to 4.3 million in 2010. Similar to the growth projected in the total allied health sector, we expect strong demand within our specific program areas, which include medical administrative assistant, medical assistant and pharmacy technician. According to the U.S. Department of Labor, the number of medical assistants and pharmacy technicians is expected to increase from 519,000 in 2000 to 775,000 in 2010.

Skilled Trades. The skilled trades industry covers a wide variety of fields, including construction, equipment installation and repair and drafting occupations. Job growth is being driven by technological advancement, as well as a shift away from traditional training sources. Many public vocational schools, which have historically trained skilled trades professionals, are suffering from reduced funding, creating increased opportunities for non-traditional providers of skilled trades programs, such as for-profit post-secondary institutions. Specifically, our program offerings include: skilled electronic systems technicians, mechanical and architectural drafting specialists and heating, ventilation and air conditioning, or HVAC, technicians. For example, the U.S. Department of Labor estimates that there were 213,000 drafters and 243,000 HVAC installers in 2000 and employment is expected to grow to 255,000 and 297,000, respectively, in these areas in 2010. In addition to the skilled trades fields that our programs cover, there is also demand for skilled trades professionals in construction, plumbing and electrical wiring. We continually evaluate opportunities to develop or acquire the curriculum to offer programs designed to prepare our graduates to enter these and other attractive skilled trade professions.

Business and Information Technology. Despite recent weakness in the business and information technology sector, we believe demand still exists for business and information technology professionals. According to the U.S. Department of Labor, of the top 30 fastest growing jobs, ten are IT-related. Furthermore, we believe that the industry will be positively impacted by an economic recovery and accompanying business investment that will drive the demand for IT technicians to upgrade computer hardware and install, integrate and operate new software applications. We have focused our business and information technology program offerings to the skills that we believe will be most marketable in the business and information technology job market in the coming years. Our business and information technology programs include: computer programming, software applications technology, network and PC systems technology, network systems administration, business administration and graphic design. According to the U.S. Department of Labor, there was an aggregate of 1.2 million computer programmers, software application engineers and network and computer systems administrators in 2000 and this number is expected to grow to 1.9 million in 2010.

Business Strengths

We believe that the following strengths differentiate us from our competitors:

Program Diversification. We believe the breadth of our areas of study and the diversity of our offerings increase our addressable market and enhance our overall revenue stability and operational flexibility. The breadth of our areas of study improves our potential for program expansion by providing us with a broader range of areas upon which to add or expand. The diversity of our program and degree offerings broadens our addressable market by attracting a varied student population, including recent high school graduates and working adults, both men and women. Additionally, our program offerings enable us to capitalize on positive trends in certain segments of the economy while reducing our dependence on other segments, as we have recently demonstrated by expanding our allied health programs to take advantage of job growth in these areas.

Operational Flexibility. Our operational infrastructure is highly flexible and enables us to adapt quickly to changing market trends. Our management team is experienced in the development of new programs and curricula that we can rapidly roll out to our schools. For example, we developed several allied health programs, including Medical Assisting which was piloted in one school and then replicated across our system to an additional 13 schools. We also developed the Electronic System Technology program at our Melrose Park campus and to date have replicated it to five additional campuses. We recently launched online associate degree programs and we expect to introduce other degree programs. We expect our online program offerings to broaden our market and further enhance our program flexibility. We also have substantial experience with the complex regulatory environment in which we operate and we believe this enables us to efficiently obtain the required approvals for new programs, expansion and acquisitions. We are also focused on the continual evaluation of our portfolio of schools and programs to maximize our facility utilization and can rapidly reallocate classroom space and other resources as necessary to exploit market opportunities. Finally, once we enter a new market through expansion or acquisition, our marketing and recruiting programs are designed to quickly populate the new program or school. For example, in 2002, we rapidly developed our allied health program curriculum, obtained the requisite regulatory approval, redesigned some of our classrooms and began to successfully market this new program offering. While allied health accounted for only 7% of our total enrollments as of December 31, 2002, it accounted for 24% of our total enrollments as of December 31, 2003 and 31.9% of our total enrollments as of December 31, 2004.

Strong Brands and Geographic Presence. We believe that our schools have established a strong competitive position in their respective local markets and significant brand recognition with prospective students and employers. The majority of our 32 campuses serve major metropolitan markets in the United States. Our LTI, DADC, NADC, Cittone, CEI, Southwestern and NETI brands provide us with local market representation in 15 states, while our destination schools—DADC, NADC and our Indianapolis, Indiana LTI school—attract students from across the United States and, in some cases, from abroad. Unlike competitors with single or regional campus models, we are able to recruit effectively from a national pool of potential students while also securing job placement for our graduates on a broader basis.

Strong Marketing and Student Recruitment. We use a variety of marketing and recruiting methods to attract students and increase enrollments. Our program combines various methods of media advertising such as television, the Internet and print media with a team of field- and campus-based recruiting representatives. Our media advertising is directed primarily at attracting high school students and working adults to our local campuses. Our field-based recruiting representatives make presentations at high schools to attract students to our local and destination campuses while our campus-based recruiting representatives field calls from our toll-free number that is included in our advertising and follow-up with potential students on an individual basis. We continuously monitor and adjust the focus of our marketing and recruiting efforts to maximize efficiency and minimize our student acquisition costs. In addition, our administrators actively work with our current students, graduates and others to encourage referrals, which have historically represented over 20% of our new enrollments.

Experienced Management Team. Our senior management team has over 200 years of combined experience and an average of approximately 20 years of experience in the for-profit, post-secondary education industry. Mr. David Carney, our Chief Executive Officer, has 27 years of experience with for-profit education companies, including serving as Vice President, Chief Financial Officer and Vice President of Development for the chain of technical schools owned by British Oxygen Group Limited which he grew from four schools when he started to 25 schools ten years later. Mr. Lawrence Brown, our President and Chief Operating Officer, has over 32 years of experience in the industry. He has been with us for more than 27 years, and has performed various roles such as admissions officer/director, school director, regional Vice President and executive Vice President. Mr. Thomas McHugh, our Vice President of Compliance, has 30 years of experience with for-profit education companies, including serving as Director of Review and Analysis for Computer Learning Centers, Inc. We believe that our management team's deep understanding of the for-profit, post-secondary education industry enables us to successfully manage our operations and facilitate our growth.

Growth Strategy

Our goal is to strengthen our role as a leading and diversified provider of career-oriented post-secondary education by continuing to pursue the following growth strategies:

Expand Existing Areas of Study and Existing Facilities. We believe we can leverage our existing operations to capitalize on the growing demand from students and employers in our local markets. We are adding new programs and degree offerings in our current areas of study and are expanding several of our campus facilities.

- **Expand Existing Areas of Study**. We are expanding our program offerings in our existing areas of study by replicating existing programs, developing new, but related, programs and increasing our degree offerings.

    - We replicate programs by taking the curriculum for an existing program at one school and introducing it to other schools across our campus base. The replication of our Electronic System Technician, or EST, program, which we introduced at one school in September 2001, three schools in 2003 and two schools in 2004, is an example of the success of our program replication. We plan to further replicate our EST program at additional locations in the future.

    - The development of new, but related, programs in existing areas of study allows us to expand our program offerings and increase enrollments at a relatively low cost. For example, our recently developed pharmacy technician program leverages our existing allied health expertise and infrastructure while attracting a new base of students and satisfying employers' evolving needs. We are currently developing three new allied health programs and one new skilled trades program.

    - We believe expanding our associate degree offerings will increase our average enrollments and the average length of stay of our students, broaden our addressable market and diversify our student demographics. We currently offer associate degrees in selected programs at thirteen of our campuses and are seeking to offer associate degrees at nine additional campuses.

- **Expand Existing Facilities**. We are expanding our existing facilities by renovating certain schools and relocating other schools to expand capacity. This will enable us to roll out new programs and attract more students. For example, we moved to a new facility in June 2004 in Indianapolis, Indiana which accommodates 2,200 students, nearly doubling the capacity of our two other facilities in that city. This additional space will allow us to grow our student population and further diversify our product offering. We moved into a new 40,000 square foot facility in October 2004 in Lincoln, Rhode Island which allowed us to consolidate facilities into one location and more than double our classroom space. Operationally, we believe these new facilities will be more efficient to manage and will accommodate increased enrollments and programs.

Enter New Geographic Markets and New Areas of Study. We believe we can increase our student enrollments by entering selected new geographic markets and new areas of study. We target new markets and areas of study that we believe have significant growth potential and where we can leverage our reputation and operating expertise. We expect that our entrance into new geographic markets and areas of study will increase our diversification and potential for future program expansion.

- **Enter New Geographic Markets**. We continuously evaluate entry into markets where we can start new schools. In the summer of 2001, we acquired eight schools that we consider start-ups because they did not have any students or staff. In starting these schools, we obtained the necessary government approvals for financial aid, hired teaching professionals and administrative staff, implemented our programs, marketed the schools under new brands and successfully populated the schools with students. Our reputation, experienced regulatory personnel and management expertise enabled us to begin accepting students in all of these schools within six months of acquisition. Today, these schools enroll more than 2,500 students. Our most recent start-up is in partnership with the Greater New York Area Automobile Dealers Association (GNYADA), and is expected to offer programs in automotive technology starting in 2005. Construction has begun on our facility in Queens, New York and this location will allow us to capitalize on the significant employer and student demand in an attractive market that we believe is currently underserved.

- **Enter New Areas of Study**. We continuously evaluate new, high-growth areas of study that are in demand by students and employers. For example, in 2002, we targeted allied health and successfully developed and launched a suite of programs in that area of study. We typically require six to 18 months to develop new programs and to obtain necessary regulatory approvals. On January 11, 2005, we acquired NETI, which offers programs in the culinary arts and nursing, which are new programs for us. In addition, in 2005 we intend to roll-out a new program for dental assistants.

Opportunistically Pursue Strategic Acquisitions. In evaluating potential acquisitions, we seek to identify schools with the potential for program replication at our existing campuses, new areas of study, new markets with attractive growth opportunities and advanced degree programs. We also look for schools whose operations we can improve by leveraging our sales and marketing expertise, business management systems and our experienced management team. In 2003, we acquired NADC, which provided us entry into the attractive Nashville, Tennessee market. We were able to successfully leverage our expertise and improve the operating income margins at NADC from 3.9% to 18.0% in the twelve months following the acquisition. In January 2004, we completed our acquisition of Southwestern and on January 11, 2005, we completed the acquisition of NETI. We continue to evaluate attractive acquisition candidates and believe that we will be successful in locating such candidates.

Introduce Online Education Alternatives. We recently launched our online initiative to capitalize on the rapidly growing demand for, and flexibility provided by, online education alternatives. Initially, we are offering our diploma graduates the opportunity to earn their associate degree online and we expect to expand our offering to include other degree programs. We began offering on-line courses in mid-2004. This should broaden our addressable market and be an attractive option for students without the geographic or financial flexibility to enroll in campus-based programs. We believe that we will be able to leverage our existing programs and campuses, as well as our relationship with eCollege.com, a provider of technology and services for online learning programs, in developing our online offerings. We initially plan to use our online offerings to enable certificate and diploma automotive students and graduates to obtain an associate degree. These students or graduates must complete a series of general education courses, which are conducive to being offered online, to obtain an associate degree. We do not anticipate that these online offerings will contribute meaningfully to our 2005 revenues.

Programs and Areas of Study

We structure our program offerings to provide our students with practical, career-oriented education and position our students for attractive entry-level job opportunities in their chosen fields. Our programs are designed to be completed in 24 to 100 weeks. Tuition ranges from $8,000 to $26,000, depending on the length of the program and the area of study. All of our schools offer diploma and certificate programs and currently twelve of our schools also offer associate degree programs. In order to accommodate the schedules of our students and maximize classroom utilization, we typically offer courses five days a week in three shifts a day and start new classes every month. We update and expand our programs frequently to reflect the latest technological advances in the field, providing our students with the specific skills and knowledge required in the current marketplace. Classroom instruction combines lectures and demonstrations by our experienced faculty with comprehensive hands-on laboratory exercises in simulated workplace environments.

The following table lists the programs offered and the number of students enrolled in each area of study as of December 31, 2004.

	Programs Offered			
Area of Study	Associate	Diploma and Certificate(1)	Enrollment	Percent of Total Enrollment
Automotive Technology	Auto Service Management, Collision Repair, Diesel Technology, Diesel & Truck Service Management	Automotive Mechanics, Automotive Technology, Collision Repair, Diesel Truck Mechanics, Diesel Technology, Diesel & Truck Technology, Master Automotive Technology	7,917	47.5%
Allied Health	—	Medical Administrative Assisting, Medical Assisting, Pharmacy Technology, Therapeutic Massage & Body Technology	5,311	31.9%
Skilled Trades	Mechanical/Architectural Drafting, Electronics Engineering Technology	Electronic Servicing, Electronics Engineering Technology, Electronics System Technology, HVAC, Mechanical/Architectural Drafting	1,710	10.2%
Business and Information Technology	PC Systems & Networking Technology	Business Administration, Computer Programming with Web Technology, Graphic Web Design, Network Systems Administrating, PC Support Technology	1,726	10.4%
	Total:		16,664	100.0%

(1) Additional programs in development: Dental Assisting, Billing and Coding, Health Information Technology, and Electrician. Upon our acquisition of NETI in January 2005, we added programs in nursing, electrical and culinary arts.

Automotive Technology. Automotive technology represents our largest area of study, with 47.5% of our enrollments as of December 31, 2004. Our automotive technology programs are 24 to 100 weeks in length, with tuition rates of $8,000 to $24,000. We believe we are a leading provider of automotive technology education in each of our local markets. Graduates of our programs are qualified to obtain entry level employment ranging from positions as technicians and mechanics to various apprentice level positions. Our graduates are employed by a wide variety of employers, ranging from automotive and diesel dealers, independent auto body paint and repair shops, to trucking and construction companies.

In 2002, we signed a lease on a new 48,000 square-foot facility in Queens, New York that we expect to open in the third quarter of 2005. This school will offer courses in automotive technology and will operate under the LTI brand name in partnership with GNYADA. GNYADA represents over 500 dealers in New York and Connecticut that comprise a large source of potential employers for our graduates, both at Queens and at our other automotive schools. We expect that we will be able to leverage our current advertising in the New York city television market to not only offer potential students who could not travel to one of our New Jersey schools a closer-to-home opportunity, but also to gain access to the entire eastern Long Island and southern Connecticut markets.

We have a partnership with BMW that offers our automotive technology students the opportunity to work for BMW through the Service Technician Education Program (STEP). The STEP program is a "graduate" school program for individuals who have successfully earned an automotive certification either at one of our schools or any of our competitor's schools. Students who are admitted to the STEP program have their tuition paid for by BMW and upon successfully completing the program are typically employed as BMW mechanics. The BMW STEP program commenced at our Columbia, Maryland facility in the second quarter of 2004. Our partnership with BMW signifies our high quality education capabilities and is an attractive marketing program.

All of our LTI schools, with the exception of our Allentown campus, offer programs in automotive technology, in most cases in addition to other technical programs. DADC and NADC, which we acquired in 2000 and 2003, respectively, currently offer programs exclusively in automotive technology. DADC, NADC and our Indianapolis, Indiana LTI schools are destination schools, attracting students from throughout the United States and, in some cases, from abroad.

Allied Health. As of December 31, 2004, allied health represented our second largest area of study, with 31.9% of our total enrollments up from 7.0% in 2002. Our allied health programs are 30 to 65 weeks in length, with tuition rates of $8,000 to $12,000. Graduates of our programs are qualified to obtain positions such as medical administrative assistant, EKG technician, claims examiner and pharmacy technician. Our graduates are employed by a wide variety of employers, including hospitals, laboratories, insurance companies, doctors' offices and pharmacies.

Our medical assistant and medical administrative assistant programs are our largest allied health programs. We recently received the necessary regulatory approvals for our therapeutic massage & body technology program, which we have introduced in eleven campuses and we offer our pharmacy technician program which we offer in nine of our campuses. We expect to augment these existing allied health programs with a new program in dental assisting and we are considering adding billing and coding and health information technology to our program offerings.

We offer allied health programs at all of our Cittone and CEI schools, Southwestern College, and our Allentown, Pennsylvania and Melrose, Illinois LTI schools.

Skilled Trades. As of December 31, 2004, 10.2% of our students were enrolled in our skilled trades programs. Our skilled trades programs are 24 to 88 weeks in length, with tuition rates of $8,000 to $24,000. Our skilled trades programs include heating, ventilation and air conditioning repair, drafting and computer-aided design and EST. Graduates of our programs are qualified to obtain entry level employment positions such as cable, wiring and HVAC installers and servicers and drafting technicians.

Our graduates are employed by a wide variety of employers, including residential and commercial telecommunications companies and architectural firms.

We created our own in-house EST program in 2001 by partnering with two industry groups, Electronic Systems Technician Consortium and the National Center for Construction Education and Research. We have introduced our EST program to six of our campuses and plan to expand it to additional campuses. Students in these programs are trained to install and service equipment such as alarm systems, cable infrastructure, home entertainment systems, fiber-optic wiring in homes and offices, and satellite and telecommunication systems.

We offer skilled trades programs at seven of our eight LTI schools (all but the Philadelphia, Pennsylvania campus).

Business and Information Technology. As of December 31, 2004, 10.4% of our students were enrolled in our business and information technology programs. Our business and information technology programs are 30 to 64 weeks in length, with tuition rates of $11,000 to $26,000. We experienced a decline in our business and information technology programs between the years 2000 and 2003 due to weakness in the economy and reduced demand for IT professionals. We therefore reduced our exposure to this area by developing our in-house allied health and EST programs in 2001 and 2002. However, we remain committed to the IT industry and expect this to be an important area of growth, especially as the economy recovers, business investment in hardware and software increases and the rapid technological advancement of computer applications continues. We have focused our current program offerings on those that are most in demand, such as our PC systems technician, network systems administrator and business administration specialist programs.

We offer business and information technology programs at all of our Cittone and CEI schools, in addition to two of our LTI schools (Columbia, Maryland and Allentown, Pennsylvania campuses) and all of our Southwestern schools.

Marketing and Student Recruitment

We utilize a variety of marketing and recruiting methods to attract students and increase enrollments. Our marketing and recruiting efforts are targeted at potential students who are entering the workforce, or who are underemployed or unemployed and require additional training to enter or re-enter the workforce.

Marketing. Our marketing program utilizes media advertising such as television, the Internet, and various print media and is enhanced by referrals. We continuously monitor and adjust the focus of our marketing efforts to maximize efficiency and minimize our student acquisition costs.

- **Media**. Our media advertising is directed primarily at attracting students from the local areas in which our schools operate. Television advertising, which is coordinated by a national buyer, is our most successful medium, generating approximately one third of our new enrollments in 2004. Systems we have developed enable us to closely monitor and track the effectiveness of each advertisement on a daily or weekly basis and make adjustments accordingly. The Internet is our second most successful medium and its effectiveness is rapidly increasing. We also advertise via direct mail, in telephone directories and in newspapers.

- **Referrals**. Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented over 20% of our new enrollments. Our school administrators actively work with our current students to encourage them to recommend our programs to potential students. We continue to build strong relationships with high school guidance counselors and instructors by offering annual seminars at our training facilities to further educate these individuals on the strengths of our programs. Graduates who have gone on to enjoy success in the workforce frequently recommend our programs, as do local business owners who are pleased with the performance of our graduates whom they have hired.

Recruiting. Our recruiting efforts are conducted by a group of field- and campus-based representatives who meet directly with potential students during presentations conducted at high schools, in the potential student's home or during a visit to one of our campuses.

- **Field-Based Recruiting**. Our field-based recruiting representatives make presentations at high schools to attract students to both our local and destination campuses. Our field-based representatives also visit directly with potential students in their homes. We estimate that in the year ended December 31, 2004, our 178 field-based representatives made approximately 7,492 visits (excluding representatives from NADC) to high schools and student homes, a 22% increase from the prior year. Over the last three years, we have recruited approximately 25% of our students directly out of high school.

- **Campus-Based Recruiting**. When a potential student is identified through our marketing and recruiting efforts, one of our 170 campus-based representatives is paired with the potential student to follow up on an individual basis. Our media advertisements contain a unique toll-free number and our telephone system automatically directs the call to the campus nearest the caller. One of our campus-based recruiting representatives responds, typically within 24 hours, to these inquiries and other inquiries generated by our marketing efforts to explain the opportunities available within each program, schedule an appointment for the potential student to visit the school and arrange a tour of the school's facilities.

Student Admissions, Enrollment and Retention

Admissions. In order to attend our schools, students must complete an application and pass an entry examination. While each of our programs has different admissions criteria, we screen all applications and counsel the students on the most appropriate program to increase the likelihood that our students complete the requisite coursework and obtain and sustain employment following graduation.

Enrollment. We enroll students continuously throughout the year, with our largest classes enrolling in late summer or early fall following high school graduation. We had 16,664 students enrolled as of December 31, 2004 and our average enrollment for the year ended December 31, 2004 was 16,226 students, an increase of 30.3% from December 31, 2003. Excluding our acquisition of Southwestern in January 2004, our average enrollments would have increased by 22.4%. For the year ended December 31, 2003, we had average enrollments of 12,487 students, a 36.4% increase over average enrollments of 9,155 in 2002. Excluding our acquisition of NADC in February 2003, our average enrollments were 11,227 students, a 22.6% increase over the prior year.

Retention. To maximize student retention, the staff at each school is trained to recognize the early warning signs of a potential drop and to assist and advise students on academic, financial, employment and personal matters. We monitor our retention rates by instructor, course, program and school. When we notice that a particular instructor or program is experiencing a higher than normal dropout rate, we quickly determine the cause of the problem and attempt to correct it. When we notice that a student is having trouble academically, we provide tutoring.

Job Placement

We believe that securing employment for our graduates is critical to our ability to attract high quality students. In addition, high job placement rates result in low student loan default rates, an important requirement for continued participation in Title IV Programs. See "Regulatory Environment—Regulation of Federal Student Financial Aid Programs." Accordingly, we dedicate significant resources to maintaining an effective graduate placement program. Our non-destination schools work closely with local employers to ensure that we are training students with skills that employers want. Each school has an advisory council made up of local employers who provide us with direct and immediate feedback on how well we are preparing our students to succeed in the workplace.

This enables us to tailor our programs to the market. For example, part of a student's grade is dependent upon attendance and appearance because employers want their employees to be punctual and to have a professional appearance. The placement staff in each of our destination schools maintains databases of potential employers throughout the country, allowing us to place students in the market of their choice upon graduation. We also have internship programs that provide our students with opportunities to work with employers prior to graduation. For example, some of the students in our automotive programs have the opportunity to complete a portion of their hands-on training while working with a potential employer. In addition, some of our allied health students are required to participate in an internship program during which they work in the field as part of their career training. Students that participate in these programs often go on to work for the same business upon graduation. We also assist students with resume writing, interviewing and other job search skills.

Our placement rates in 2002, 2003 and 2004 were 83.3%, 84.6% and 86.7%, respectively, of our graduates obtaining employment in their field prior to March 1 of the year following the year of their graduation. Throughout this period, our placement rate for our automotive technology graduates has consistently exceeded 89.0%. Many of our automotive technology graduates are employed by dealership and repair centers. Many of our non-auto graduates are placed with local employers such as small businesses, national chains and doctors' offices.

Faculty and Employees

We hire our faculty in accordance with established criteria, including relevant work experience, educational background and accreditation and state regulatory standards. We require meaningful industry experience of our teaching staff in order to maintain the quality of instruction in all of our programs and to address current and industry-specific issues in our course content. In addition, we provide intensive instructional training and continuing education, including quarterly instructional development seminars, annual reviews, technical upgrade training, faculty development plans and weekly staff meetings.

The staff of each school typically includes a school director, a director of graduate placement, an education director, a director of student services, a financial-aid director, an accounting manager and a director of admissions, all of whom are industry professionals with experience in our areas of study.

As of December 31, 2004, we had approximately 2,350 employees, including 818 full-time faculty and 275 part-time instructors, and 239 of our teaching professionals at four of our campuses are represented by unions. These employees are covered by collective bargaining agreements that expire in 2005 through 2006. We believe that we have good relationships with these unions.

We have had no work stoppages at any of our campuses in the past 20 years.

Competition

The for-profit post-secondary education industry is highly competitive and highly fragmented, with no one provider controlling significant market share. Direct competition between career-oriented schools and traditional four-year colleges or universities is limited. Thus, our main competitors are other for-profit, career-oriented schools, as well as public and private two-year junior and community colleges. Competition is generally based on location, the type of programs offered, the quality of instruction, placement rates, reputation, recruiting and tuition rates. Public institutions are generally able to charge lower tuition than our schools, due in part to government subsidies and other financial sources not available to for-profit schools. In addition, some of our private competitors have a more extended or dense network of schools and campuses than we do, which enables them to recruit students more efficiently from a wider geographic area. Nevertheless, we believe that we are able to compete effectively in our local markets because of the diversity of our program offerings, quality of instruction, the strength of our brands, our reputation and our success in placing students with employers.

Facilities

We lease all of our facilities, except for our former Indianapolis, Indiana campus, our Nashville, Tennessee campus and our Cincinnati (Tri-County) campus, which we own. Four of our facilities (Union, New Jersey; Allentown, New Jersey; Philadelphia, Pennsylvania; and Grand Prairie, Texas) are also accounted for by us under a finance lease obligation as further described in Note 11 to the audited consolidated financial statements included elsewhere in this prospectus. We continue to re-evaluate our facilities to maximize our facility utilization and efficiency and to allow us to introduce new programs and attract more students. We entered into a 15-year lease for a 126,000 square foot facility in Indianapolis, which replaced our existing facility in that city. We also entered into a ten-year lease for a 40,000 square foot facility in Lincoln, Rhode Island, which replaced our existing facilities in that city. In addition, in July 2002, we signed a lease for a new 48,000 square-foot facility in Queens, New York, which we expect to open in the third quarter of 2005. During 2003, we moved all of our Boston, Massachusetts students into our Somerville, Massachusetts campus. All of our existing leases expire between October 2005 and November 2020, with the exception of one lease representing a total of 10,000 square feet that we lease on a month-to-month basis. We have entered into a letter of intent to sell our former Indianapolis, Indiana campus which we own. These assets were classified as available for sale as of July 1, 2004.

The following table provides information relating to our facilities as of December 31, 2004, including our corporate offices:

Location	Brand	Approximate Square Footage
Union, New Jersey	Lincoln Technical Institute	60,000
Mahwah, New Jersey	Lincoln Technical Institute	79,000
Allentown, Pennsylvania	Lincoln Technical Institute	26,000
Philadelphia, Pennsylvania	Lincoln Technical Institute	33,000
Columbia, Maryland	Lincoln Technical Institute	91,000
Indianapolis, Indiana(1)	Lincoln Technical Institute	182,000
Melrose Park, Illinois	Lincoln Technical Institute	67,000
Grand Prairie, Texas	Lincoln Technical Institute	48,000
Denver, Colorado	Denver Automotive & Diesel College	78,000
Nashville, Tennessee	Nashville Auto Diesel College	278,000
Edison, New Jersey	Cittone Institute	64,000
Mt. Laurel, New Jersey	Cittone Institute	26,000
Philadelphia, Pennsylvania	Cittone Institute	37,000
Northeast Philadelphia, Pennsylvania	Cittone Institute	45,000
Plymouth Meeting, Pennsylvania	Cittone Institute	30,000
Paramus, New Jersey	Cittone Institute	27,000
Boston, Massachusetts	Career Education Institute	7,000
Brockton, Massachusetts	Career Education Institute	10,000
Lincoln, Rhode Island	Career Education Institute	40,000
Lowell, Massachusetts	Career Education Institute	20,000
Somerville, Massachusetts	Career Education Institute	33,000
Norcross, Georgia	Career Education Institute	27,000
Marietta, Georgia	Career Education Institute	16,000
Henderson, Nevada	Career Education Institute	27,000
Dayton, Ohio	Southwestern College	9,000
Franklin, Ohio	Southwestern College	14,000
Cincinnati, Ohio	Southwestern College	10,000
Cincinnati (Tri-County), Ohio	Southwestern College	15,000
Florence, Kentucky	Southwestern College	9,000
West Orange, New Jersey	Corporate Offices	41,000

(1) Our Indianapolis, Indiana school is currently comprised of two facilities: a 55,900 square foot facility that we own and a 126,000 square foot facility that we lease. We have entered into a letter of intent to sell the owned facility and have classified these assets as available for sale on July 1, 2004.

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 or financial condition.

Since May 2002, we have been involved in litigation brought by two former employees acting as "relators" under the *qui tam* provisions of the federal False Claims Act, 31 U.S.C. §§ 3729-33 (FCA). The relators have alleged that we violated Title IV Program requirements that prohibit the payment of commissions, bonuses or other incentive payments to admissions and recruitment personnel based upon their success in securing enrollments, and that our participation in the federal student aid programs under these circumstances constituted actionable "false claims" within the meaning of federal law. The relators are pursuing the litigation against us on their own, without the involvement or support of the U.S. Department of Justice, which had given notice, after investigation, of its intention not to participate in the case. On September 3, 2003, after full briefing of the issues by the parties, the district court granted our motion and dismissed the entire action, with prejudice. The relators appealed the ruling to the United States Court of Appeals for the Fifth Circuit, which affirmed the District Court's dismissal of the case on October 15, 2004. The relators subsequently served upon us a petition for a Writ of Certiorari with the Supreme Court of the United States and the petition was docketed in the Supreme Court on March 10, 2005. We would vigorously defend the rulings of the District Court and the Fifth Circuit if the Supreme Court granted the writ.

REGULATORY ENVIRONMENT

Students attending our schools finance their education through a combination of family contributions, individual resources and federal financial aid programs. Each of our schools participates in the federal programs of student financial aid authorized under Title IV Programs, which are administered by the DOE. For the year ended December 31, 2004, approximately 81% (calculated on a cash basis of accounting) of our revenues were derived from the Title IV Programs. Students obtain access to federal student financial aid through a DOE prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically use the funds received from the federal financial aid programs to pay their tuition and fees. The transfer of funds from the financial aid programs are to the student, who then applies those funds to the cost of their education.

In connection with the students' receipt of federal financial aid, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Title IV Programs, and the regulations issued thereunder by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that each of our schools must satisfy in order to participate in the various federal student financial aid programs. To participate in the Title IV Programs, a school must be authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. The DOE defines an eligible institution to consist of both a main campus and its additional locations, if any. Each of our schools is either a main campus or an additional location of a main campus. Each of our schools is subject to extensive regulatory requirements imposed by state education agencies, accrediting commissions, and the DOE. Our schools also participate in other federal and state financial aid programs that assist students in paying the cost of their education.

State Authorization

Each of our schools must be authorized by the applicable education agencies in the states in which the school is physically located and, in some cases other states, in order to operate and to grant degrees, diplomas or certificates to its students. State agency authorization is also required in each state in which a school is physically located in order for the school to become and remain eligible to participate in Title IV Programs. Currently, each of our schools is authorized by the applicable state education agencies in the states in which the school is physically located and in which it recruits students.

Our schools are subject to extensive, ongoing regulation by each of these states. State laws typically establish standards for instruction, qualifications of faculty, location and nature of facilities and equipment, administrative procedures, marketing, recruiting, financial operations and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees, diplomas or certificates. Some states prescribe standards of financial responsibility that are different from, and in certain cases more stringent than, those prescribed by the DOE. Some states require schools to post a surety bond. Currently, we have posted surety bonds on behalf of our schools and education representatives with multiple states in a total amount of approximately $8.6 million. These bonds are backed by $2.4 million of letters of credit.

If any of our schools fail to comply with state licensing requirements, they are subject to the loss of state licensure or accreditation. If any one of our schools lost its authorization from the education agency of the state in which the school is located, that school and its related main campus and/or additional locations would lose its eligibility to participate in Title IV Programs, be unable to offer its programs and we could be forced to close that school. If one of our schools lost its state authorization from a state other than the state in which the school is located, the school would not be able to recruit students in that state. We believe that each of our schools is in substantial compliance with the applicable education agency requirements in each state in which it is physically located.

Due to state budget constraints in other states in which we operate, it is possible that those states may reduce the number of employees in, or curtail the operations of, the state education agencies that authorize our schools. A delay or refusal by any state education agency in approving any changes in our operations that require state approval could prevent us from making such changes or could delay our ability to make such changes.

Accreditation

Accreditation is a non-governmental process through which a school submits to ongoing qualitative review by an organization of peer institutions. Accrediting commissions primarily examine the academic quality of the school's instructional programs, and a grant of accreditation is generally viewed as confirmation that the school's programs meet generally accepted academic standards. Accrediting commissions also review the administrative and financial operations of the schools they accredit to ensure that each school has the resources necessary to perform its educational mission.

Accreditation by an accrediting commission recognized by the DOE is required for an institution to be certified to participate in Title IV Programs. In order to be recognized by the DOE, accrediting commissions must adopt specific standards for their review of educational institutions. Ten of our campuses, plus the additional four campuses we acquired as a result of our acquisition of NETI, are accredited by the Accrediting Commission of Career Schools and Colleges of Technology, or ACCSCT, and 18 of our campuses are accredited by the Accrediting Council for Independent Colleges and Schools or ACICS. ACCSCT and ACICS are accrediting commissions recognized by the DOE. The following is a list of the dates in which each campus was accredited by its accrediting commission and the date by which its accreditation must be renewed.

ACCSCT Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation
Philadelphia, PA	May 2003	May 2008
Union, NJ	June 2004	February 2009
Mahwah, NJ*	August 1999	August 2009
Melrose Park, IL	March 2005	November 2009
Denver, CO	February 2001	February 2006
Columbia, MD	March 2002	March 2007
Grand Prairie, TX	June 2002	June 2007
Allentown, PA	January 2002	January 2007
Nashville, TN	May 2002	May 2007
Indianapolis, IN	November 2002	November 2007
New Britain, CT	January 1, 2003	January 1, 2008
Shelton, CT**	September 1, 2003	September 1, 2005
Cromwell, CT**	November 22, 2004	November 22, 2006
Hamden, CT**	July 1, 2002	July 1, 2007

* Branch campus of main campus in Union, NJ

** Branch campus of main campus in New Britain, CT

ACICS Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	
Brockton, MA****	August 21, 1998	December 31, 2004	(1)
Henderson, NV****	April 30, 2003	December 31, 2004	(1)
Lincoln, RI	May 1, 2002	December 31, 2004	(1)
Lowell, MA**	December 19, 2002	December 31, 2004	(1)
Somerville, MA	May 1, 2002	December 31, 2004	(1)
Center City, PA*	April 30, 2003	December 31, 2006	
Edison, NJ	April 30, 2003	December 31, 2006	
Marietta, GA****	April 30, 2003	December 31, 2004	(1)
Mt. Laurel, NJ*	April 30, 2003	December 31, 2006	
Norcross, GA****	April 30, 2003	December 31, 2004	(1)
Paramus, NJ*	April 30, 2003	December 31, 2006	
Philadelphia, PA*	April 30, 2003	December 31, 2006	
Plymouth Meeting, PA*	April 30, 2003	December 31, 2006	
Dayton, OH	August 23, 2004(2)	December 31, 2005	
Vine Street, OH***	August 23, 2004(2)	December 31, 2005	
Northland Blvd., OH***	August 23, 2004(2)	December 31, 2005	
Franklin, OH***	August 23, 2004(2)	December 31, 2005	
Florence, KY***	August 23, 2004(2)	December 31, 2005	

* Branch campus of main campus in Edison, NJ

** Branch campus of main campus in Somerville, MA

*** Branch campus of main campus in Dayton, OH

**** Branch campus of main campus in Lincoln, NJ

(1) We are in the process of obtaining a new accreditation letter.

(2) Date of letter reconfirming accreditation upon acquisition. The last accreditation letter was dated May 1, 2002.

If one of our schools fails to comply with accrediting commission requirements, the institution and its main and/or branch campuses are subject to the loss of accreditation. If any one of our schools lost its accreditation, students attending that school would no longer be eligible to receive Title IV Program funding, and we could be forced to close that school. Our Edison school (including its branch campuses in Mt. Laurel, Paramus, Philadelphia, Northeast Philadelphia and Plymouth Meeting) and our Somerville school (including its branch campus in Lowell) are presently under financial review with ACICS. Under financial review, the schools are required to submit to ACICS financial reports on a quarterly basis. While under financial review, an institution must obtain approval from ACICS before applying to add a new non-main location and may be required to request permission to submit a new program application. We believe that each of our schools is in substantial compliance with its respective accrediting commission's standards.

Nature of Federal and State Support for Post-Secondary Education

The federal government provides a substantial part of its support for post-secondary education through Title IV Programs, in the form of grants and loans to students who can use those funds at any institution that has been certified as eligible by the DOE. Most aid under Title IV Programs is awarded on the basis of financial need, generally defined as the difference between the cost of attending the institution and the expected amount a student and his or her family can reasonably contribute to that cost. All recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV Program funds are properly accounted for and disbursed in the correct amounts to eligible students.

Students at our schools receive grants and loans to fund their education under the following Title IV Programs: (1) the Federal Family Education Loan, or FFEL, program, (2) the Federal Pell Grant, or Pell, program, (3) the Federal Supplemental Educational Opportunity Grant, or FSEOG, program, and (4) the Federal Perkins Loan, or Perkins, program.

FFEL. Under the FFEL program, banks and other lending institutions make loans to students or their parents. If a student or parent defaults on a loan, payment is guaranteed by a federally recognized guaranty agency, which is then reimbursed by the DOE. Students with financial need qualify for interest subsidies while in school and during grace periods. For the year ended December 31, 2004, we derived approximately 60% respectively of our Title IV revenues (calculated on the cash basis of accounting) from the FFEL program.

Pell. Under the Pell program, the DOE makes grants to students who demonstrate the greatest financial need. For the year ended December 31, 2004, we derived less than 20% of our revenues (calculated on the cash basis of accounting) from the Pell program.

FSEOG. FSEOG grants are designed to supplement Pell grants for students with the greatest financial needs. An institution is required to make a 25% matching contribution for all funds received from the DOE under this program. For the year ended December 31, 2004, we received less than 1% of our revenues (calculated on the cash basis of accounting) from the FSEOG program.

Perkins. Perkins loans are made from a revolving institutional account, 75% of which is capitalized by the DOE and the remainder by the institution. Each institution is responsible for collecting payments on Perkins loans from its former students and lending those funds to currently enrolled students. Defaults by students on their Perkins loans reduce the amount of funds available in the applicable school's revolving account to make loans to additional students, but the school does not have any obligation to guarantee the loans or repay the defaulted amounts. For the year ended December 31, 2004, we derived less than 1% of our revenues (calculated on the cash basis of accounting) from the Perkins program.

Other Financial Assistance Programs

Some of our students receive financial aid from federal sources other than Title IV Programs, such as the programs administered by the U.S. Department of Veterans Affairs and under the Workforce Investment Act. In addition, many states also provide financial aid to our students in the form of grants, loans or scholarships. The eligibility requirements for state financial aid and these other federal aid programs vary among the funding agencies and by program. Several states that provide financial aid to our students are facing significant budgetary constraints. We believe that the overall level of state financial aid for our students is likely to decrease in the near term, but we cannot predict how significant any such reductions will be or how long they will last.

In addition to Title IV and other government-administered programs, all of our schools are eligible to participate in alternative loan programs for their students. Alternative loans fill the gap between what the student receives from all financial aid sources and what the student may need to cover the full cost of their education. Students or their parents can apply to a number of different lenders for this funding at current market interest rates.

Reorganization

We were founded in 1946 as Lincoln Technical Institute, Inc. In February 2003, we reorganized our corporate structure to create a holding company, Lincoln Educational Services Corporation. The ownership of Lincoln Education Services Corporation was identical to that of Lincoln Technical Institute, Inc. immediately prior to this reorganization. We subsequently began operating our entire organization under the Lincoln Educational Services Corporation name; however, before this reorganization, all of our interaction with the DOE, state and federal regulators and accrediting agencies was conducted by Lincoln Technical Institute, Inc.

Regulation of Federal Student Financial Aid Programs

To participate in Title IV Programs, an institution must be authorized to offer its programs by the relevant state education agencies, be accredited by an accrediting commission recognized by the DOE and be certified as eligible by the DOE. The DOE will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the HEA and the DOE's extensive regulations regarding institutional eligibility. The DOE defines an institution to consist of both a main campus and its additional locations, if any. Under this definition, for DOE purposes, we have the following fourteen institutions, collectively consisting of fourteen main campuses and eighteen additional locations:

Brand	Main Campus(es)	Additional Location(s)
Lincoln Technical Institute	Indianapolis, IN Philadelphia, PA Columbia, MD Grand Prairie, TX Melrose Park, IL Union, NJ Allentown, PA	Mahwah, NJ (additional location of Union)
Denver Automobile & Diesel College	Denver, CO	—
Nashville Auto Diesel College	Nashville, TN	—
Cittone Institute	Edison, NJ	Mount Laurel, NJ Paramus, NJ Philadelphia, PA Plymouth Meeting, PA Northeast Philadelphia, PA
Career Education Institute	Lincoln, RI Somerville, MA	Brockton, MA (Lincoln) Norcross, GA (Lincoln) Marietta, GA (Lincoln) Henderson, NV (Lincoln) Lowell, MA (Somerville)
Southwestern College	Dayton, OH	Cincinnati, OH Franklin, OH Tri-County, Cincinnati, OH Florence, KY
New England Technical Institute	New Britain, CT	Shelton, CT Cromwell, CT Hamden, CT

All of our main campuses, including their additional locations, are currently certified by the DOE to participate in Title IV Programs. NETI has received and signed a temporary provisional program participation agreement, or a TPPPA, issued by the DOE after its change in ownership and is waiting to receive the countersigned agreement from the DOE. Southwestern has received and signed a provisional program participation agreement issued by the DOE after its change in ownership and is waiting to receive the countersigned agreement from the DOE or, alternatively, a new agreement to be signed by it and the DOE. The DOE agreed that the addition of the holding company to our ownership structure in 2003 would not constitute a change in ownership of our institutions resulting in a change of control provided that certain conditions were met, including that the holding company execute the program participation agreement for each institution. See "Regulatory Environment —Reorganization" for a description of our reorganization in 2003. The holding company has executed a program participation agreement for each of our institutions except for NETI which has executed a TPPPA. The DOE has countersigned all of the executed program participation agreements except the program participation agreement for Southwestern and the TPPPA for NETI. We expect the DOE to countersign the Southwestern program participation agreement (or, alternatively, to issue a new agreement to be signed by Southwestern and the DOE) and the NETI TPPPA, but no assurances can be given as to when or if the DOE will do so. In addition, the DOE requested that the institutions submit audited financial statements of both the holding company and the subsidiary companies as consolidating statements. We expect to submit to the DOE consolidating information for the 2004 fiscal year for LTI and Southwestern.

The DOE, accrediting commissions and state education agencies have responsibilities for overseeing compliance of schools with Title IV Program requirements. As a result, each of our schools is subject to detailed oversight and review, and must comply with a complex framework of laws and regulations. Because the DOE periodically revises its regulations and changes its interpretation of existing laws and regulations, we cannot predict with certainty how the Title IV Program requirements will be applied in all circumstances.

Significant factors relating to Title IV Programs that could adversely affect us include the following:

Congressional Action. Political and budgetary concerns significantly affect Title IV Programs. Congress must reauthorize the Higher Education Act approximately every five years. The last reauthorization took place in 1998. Consequently, Congress recently began the process of reviewing and reauthorizing the HEA again, a process that is expected to be concluded in 2005. We believe that this reauthorization will likely result in numerous changes to the HEA. At this time, we cannot predict with certainty what changes Congress will make.

In addition, Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. Congress can also make changes in the laws affecting Title IV Programs in the annual appropriations bills and in other laws it enacts between the HEA reauthorizations. Because a significant percentage of our revenues are derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could reduce our student enrollment and our revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV Program requirements.

The "90/10 Rule." A proprietary institution, such as each of our institutions, loses its eligibility to participate in Title IV Programs if, on a cash accounting basis, it derives more than 90% of its revenues for any fiscal year from Title IV Programs. Any institution that violates this rule becomes ineligible to participate in Title IV Programs as of the first day of the fiscal year following the fiscal year in which it exceeds 90%, and is unable to apply to regain its eligibility until the next fiscal year. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

We have calculated that, for each of our 2002, 2003 and 2004 fiscal years, none of our institutions derived more than 86.6% of its revenues from Title IV Programs. For our 2004 fiscal year, our institutions' 90/10 Rule percentages ranged from 73.3% to 86.6%. 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.

Student Loan Defaults. An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution's current and former students default on their federal student loans exceed specified percentages. The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The DOE calculates an institution's cohort default rate on an annual basis as the rate at which borrowers scheduled to begin repayment on their loans in one year default on those loans by the end of the next year. An institution whose FFEL cohort default rate is 25% or greater for three consecutive federal fiscal years (which correspond to our fiscal years) loses eligibility to participate in the FFEL 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 FFEL cohort default rate for any single federal fiscal year exceeds 40% may have its eligibility to participate in all Title IV Programs limited, suspended or terminated by the DOE.

None of our institutions has had an FFEL cohort default rate of 25% or greater for any of the federal fiscal years 2000, 2001 and 2002, the three most recent years for which the DOE has published such rates. Nine of our 14 institutions (which include 23 of 32 campuses) had default rates less than 10% for these years. The following table sets forth the FFEL cohort default rates for each of our 14 DOE numbers for those fiscal years.

Institution	2000	2001	2002
Union, NJ	4.4%	4.2%	5.9%
Indianapolis, IN	9.1%	5.8%	8.41%
Philadelphia, PA	9.5%	15.2%	13.7%
Columbia, MD	4.4%	5.7%	7.1%
Allentown, PA	4.1%	2.7%	7.1%
Melrose Park, IL	5.9%	5.6%	11.9%
Grand Prairie, TX	11.7%	10.7%	14.3%
Edison, NJ	4.4%	2.9%	4.1%
Denver, CO	9.0%	10.4%	8.4%
Nashville, TN	7.4%	5.5%	5.0%
Lincoln, RI	3.7%	5.1%	6.2%
Somerville, MA	1.2%	2.5%	6.2%
Dayton, OH	16.6%	0.0%	0.0%
New Britain, CT	2.8%	2.8%	3.9%

An institution whose cohort default rate under the FFEL program is 25% or greater for any one of the three most recent federal fiscal years, or whose cohort default rate under the Perkins program exceeds 15% for any federal award year (the twelve-month period from July 1 through June 30), may be placed on provisional certification status by the DOE. None of our institutions have a FFEL cohort default rate above 25% for any of the three most recent fiscal years for which the DOE has published rates.

An institution whose Perkins cohort default rate is 50% or greater for three consecutive federal award years loses eligibility to participate in the Perkins program for the remainder of the federal award year in which DOE determines that the institution has lost its eligibility and for the two subsequent federal award years. None of our institutions has had a Perkins cohort default rate of 50% or greater for any of the last three federal award years. The DOE also will not provide any additional federal funds to an institution for Perkins loans in any federal award year in which the institution's Perkins cohort default rate is 25% or greater. DADC and NETI are our only institutions participating in the Perkins program. DADC's cohort default rate was 22.86% for students scheduled to begin repayment in the 2002-2003 federal award year. The DOE has not provided any federal funds for Perkins loans to DADC. DADC continues to make loans out of its existing Perkins loan fund. NETI is provisionally certified by the DOE based on its change in ownership and on a finding by the DOE prior to the change in ownership that NETI had not transmitted certain data related to the Perkins program to the National Student Loan Data System during periods prior to the acquisition. NETI's cohort default rate was 4.35% for students scheduled to begin repayment in the 2002-2003 federal award year.

Financial Responsibility Standards. All institutions participating in Title IV Programs must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based on the institution's annual audited financial statements, as well as following a change in ownership resulting in a change of control of the institution.

The most significant financial responsibility measurement is the institution's composite score, which is calculated by the DOE based on three ratios:

- the equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;
- the primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and
- the net income ratio, which measures the institution's ability to operate at a profit.

The DOE assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The DOE then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight. If an institution's composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as "the zone." Under the DOE regulations, institutions that are in the zone are deemed to be financially responsible for a period of up to three years but are required to accept payment of Title IV Program funds under the cash monitoring or reimbursement method of payment, to be provisionally certified and to provide to the DOE timely information regarding various oversight and financial events.

If an institution's composite score is below 1.0, the institution is considered by the DOE to lack financial responsibility. If the DOE determines that an institution does not satisfy the DOE's financial responsibility standards, depending on its composite score and other factors, that institution may establish its financial responsibility on an alternative basis by, among other things:

- posting a letter of credit in an amount equal to at least 50% of the total Title IV Program funds received by the institution during the institution's most recently completed fiscal year;
- posting a letter of credit in an amount equal to at least 10% of such prior year's Title IV Program funds, accepting provisional certification, complying with additional DOE monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than the DOE's standard advance funding arrangement; and/or
- complying with additional DOE monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than the DOE's standard advance funding arrangement.

The DOE has evaluated the financial condition of our institutions on a consolidated basis. DOE regulations permit the DOE to examine our financial statements, including the financial statements of each institution and the financial statements of any related party. Based on our calculations, our audited financial statements for the 2003 and 2004 fiscal years reflect a composite score of 2.1 and 1.8, respectively. However, as a result of the corrections of certain errors in our prior financial statements, including accounting for advertising costs, a sale leaseback transaction, rent and other individually insignificant adjustments, the DOE recomputed our previously submitted consolidated composite scores for the years ended December 31, 2001 and 2002 and concluded that the recomputed consolidated composite scores for those two years were below 1.0. In addition, we identified certain additional errors in our financial statements for the year ended December 31, 2003 relating to our accounting for stock-based compensation and accrued bonuses that did not result in a recomputation of our 2003 composite score. The DOE has informed us that as a result, for a period of three years effective December 30, 2004, all of our current and future schools have been placed on "Heightened Cash Monitoring, Type 1 status" and are required to timely notify the DOE with respect to certain enumerated oversight and financial events. The DOE also informed us that these corrections will be taken into consideration when each of our institutions applies for recertification of its eligibility to participate in Title IV Programs. When each of our institutions is next required to apply for recertification to participate in Title IV Programs, we expect that the DOE will also consider our audited financial statements and composite scores for our most recent fiscal year as well as for other fiscal years after 2001 and 2002. Additionally, since the DOE concluded that the previously computed composite scores for 2001 and 2002 were overstated, we have agreed to pay $165,000 to the DOE, pursuant to a settlement agreement, to resolve compliance issues related to this matter. We paid this amount on March 3, 2005. Although no assurance can be given, we do not believe that actions of the DOE specified above will have a material effect on our financial position or results of operations.

Return of Title IV Funds. An institution participating in Title IV Programs must calculate the amount of unearned Title IV Program funds that have been disbursed to students who withdraw from their educational programs before completing them, and must return those unearned funds to the DOE or the applicable lending institution in a timely manner, which is generally within 30 days from the date the institution determines that the student has withdrawn.

If an institution is cited in an audit or program review for returning Title IV Program funds late for 5% or more of the students in the audit or program review sample, the institution must post a letter of credit in favor of the DOE in an amount equal to 25% of the total amount of Title IV Program funds that should have been returned for students who withdrew in the institution's previous fiscal year. Southwestern made late returns of Title IV Program funds in excess of the DOE's prescribed threshold, most of which predated our acquisition of Southwestern. As a result, in accordance with DOE regulations, we have submitted a letter of credit to the DOE in the amount of $28,400. NADC made late returns of Title IV Program funds in excess of the DOE's prescribed threshold during periods that predated our acquisition of NADC. As a result, in accordance with DOE regulations, we submitted a letter of credit to the DOE in the amount of $327,000. Based on the absence of late returns of Title IV Program funds in excess of the DOE's prescribed thresholds in NADC's compliance audits for the 2002 fiscal year after our acquisition and for the 2003 fiscal year, we were allowed to have this letter of credit expire in accordance with its terms in March 2004. Our other institutions were not required to submit a letter of credit based on the results of their 2002 and 2003 compliance audits.

School Acquisitions. When a company acquires a school that is eligible to participate in Title IV Programs, that school undergoes a change of ownership resulting in a change of control as defined by the DOE. Upon such a change of control, a school's eligibility to participate in Title IV Programs is generally suspended until it has applied for recertification by the DOE as an eligible school under its new ownership, which requires that the school also re-establish its state authorization and accreditation.

The DOE may temporarily and provisionally certify an institution seeking approval of a change of control under certain circumstances while the DOE reviews the institution's application. The time required for the DOE to act on such an application may vary substantially. DOE recertification of an institution following a change of control will be on a provisional basis. Our expansion plans are based, in part, on our ability to acquire additional schools and have them certified by the DOE to participate in Title IV Programs. Our expansion plans take into account the approval requirements of the DOE and the relevant state education agencies and accrediting commissions. Southwestern received and signed a provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE or, alternatively, to receive a new agreement to be signed by it and the DOE. In connection with our acquisition of NETI, we have received a TPPPA from the DOE, which we are waiting for the DOE to countersign and are in the process of obtaining a final approval of the NETI acquisition from the DOE. We expect the DOE approval issued to NETI at the conclusion of the pending change in ownership approval process to be provisional although we can provide no assurance as to the timing and content of the DOE's response to the pending change in ownership application.

Change of Control. In addition to school acquisitions, other types of transactions can also cause a change of control. DOE, most state education agencies and our accrediting commissions have standards pertaining to the change of control of schools, but these standards are not uniform. DOE regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution's parent corporation. For a company that is privately held, but not closely held, which is the status of our company prior to the offering, DOE regulations provide that a change of ownership resulting in a change of control occurs if any person either acquires or ceases to hold at least 25% of the company's total outstanding voting stock and that person gains or loses actual control of the corporation. With respect to a publicly traded corporation, which will be the status of our company after the offering, DOE regulations provide that a change of control occurs in one of two ways: (a) if there is an event that would obligate the corporation to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing a change of control or (b) if the corporation has a shareholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest shareholder of the corporation, and that shareholder ceases to own at least 25% of such stock or ceases to be the largest shareholder. These standards are subject to interpretation by the DOE.

A significant purchase or disposition of our common stock could be determined by the DOE to be a change of control under this standard. Most of the states and our accrediting commissions include the sale of a controlling interest of common stock in the definition of a change of control. A change of control under the definition of one of these agencies would require the affected school to reaffirm its state authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely.

We have not received confirmation from the DOE or from our state licensing agencies that this offering will not be a change of control under its standards. We intend to submit requests for such confirmation from the DOE and educational agencies in states in which our schools are physically located, which we expect to receive prior to completion of this offering. ACCSCT and ACICS have previously confirmed that this offering will not be a change of control under its standards.

A change of control could occur as a result of future transactions in which our company or schools are involved. Some corporate reorganizations and some changes in the board of directors are examples of such transactions. Moreover, once we become a publicly traded company, the potential adverse effects of a change of control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of common stock and could have an adverse effect on the market price of your shares.

Opening Additional Schools and Adding Educational Programs. For-profit educational institutions must be authorized by their state education agencies and fully operational for two years before applying to the DOE to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish an additional location and apply to participate in Title IV Programs at that location without reference to the two-year requirement, if such additional location satisfies all other applicable DOE eligibility requirements. Our expansion plans are based, in part, on our ability to open new schools as additional locations of our existing institutions and take into account the DOE's approval requirements.

A student may use Title IV Program funds only to pay the costs associated with enrollment in an eligible educational program offered by an institution participating in Title IV Programs. Generally, an institution that is eligible to participate in Title IV Programs may add a new educational program without DOE approval if that new program leads to an associate level or higher degree and the institution already offers programs at that level, or if that program prepares students for gainful employment in the same or a related occupation as an educational program that has previously been designated as an eligible program at that institution and meets minimum length requirements. If an institution erroneously determines that an educational program is eligible for purposes of Title IV Programs, the institution would likely be liable for repayment of Title IV Program funds provided to students in that educational program. Our expansion plans are based, in part, on our ability to add new educational programs at our existing schools. We do not believe that current DOE regulations will create significant obstacles to our plans to add new programs.

Some of the state education agencies and our accrediting commission also have requirements that may affect our schools' ability to open a new campus, establish an additional location of an existing institution or begin offering a new educational program. Our Edison school (including its branch campuses in Mt. Laurel, Paramus, Philadelphia, Center City and Plymouth Meeting) and our Somerville school (including its Lowell branch campus) are presently under financial review with ACICS. Under financial review, the school is required to submit financial reports to ACICS on a quarterly basis. While on financial review, an institution must obtain approval from ACICS before applying to add a new non-main location and may be required to request permission to submit a new program application. We do not believe that these standards will create significant obstacles to our expansion plans.

Administrative Capability. The DOE assesses the administrative capability of each institution that participates in Title IV Programs under a series of separate standards. Failure to satisfy any of the standards may lead the DOE to find the institution ineligible to participate in Title IV Programs or to place the institution on provisional certification as a condition of its participation. These criteria require, among other things, that the institution:

- complies with all applicable federal student financial aid regulations;
- has capable and sufficient personnel to administer the federal student financial aid programs;
- has acceptable methods of defining and measuring the satisfactory academic progress of its students;
- refers to the Office of the Inspector General any credible information indicating that any applicant, student, employee or agent of the school has been engaged in any fraud or other illegal conduct involving Title IV Programs;
- provides financial aid counseling to its students; and
- submits in a timely manner all reports and financial statements required by the regulations.

Failure by an institution to satisfy any of these or other administrative capability criteria could cause the institution to lose its eligibility to participate in Title IV Programs, which would have a material adverse effect on our business and results of operations.

Other standards provide that an institution may be found to lack administrative capability and be placed on provisional certification if its student loan default rate under the FFEL program is 25% or greater for any of the three most recent federal fiscal years, or if its Perkins cohort default rate exceeds 15% for any federal award year. None of our institutions have a FFEL cohort default rate above 25% for any of the three most recent fiscal years for which the DOE has published rates. DADC and NETI are our only institutions participating in the Perkins program. DADC's cohort default rate was 22.86% for students scheduled to begin repayment in the 2002-2003 federal award year. The DOE has not provided any federal funds for Perkins loans to DADC. DADC continues to make loans out of its existing Perkins loan fund. As it was prior to when we acquired it, NETI is provisionally certified by the DOE based on its change in ownership and on a finding by the DOE prior to the change in ownership that NETI had not transmitted certain data related to the Perkins program to the National Student Loan Data System during periods prior to the acquisition. NETI's cohort default rate was 4.35% for students schedule to begin repayment in the 2002-2003 federal award year.

Ability to Benefit Regulations. Under certain circumstances, an institution may elect to admit non-high school graduates, or "ability to benefit," or ATB, students, into certain of its programs of study. In order for ATB students to be eligible for Title IV Program participation, the institution must comply with the ATB requirements set forth in the Title IV Program requirements. The basic evaluation method to determine that a student has the ability to benefit from the program is the student's achievement of a minimum score on a test approved by the DOE and independently administered in accordance with DOE regulations. In addition to the testing requirements, the DOE regulations also prohibit ATB student enrollments from constituting 50% or more of the total enrollment of the institution. We changed our policy and stopped admitting ATB students in 2003. We subsequently acquired Southwestern in 2004 and NETI in 2005, both of which currently enroll ATB students. With the exception of Southwestern and NETI, we expect to continue this policy and our other schools do not expect to admit ATB students in the future.

On or about May 10, 2002, the DOE Office of Inspector General, or OIG, issued a final audit report to the Philadelphia, Pennsylvania LTI school concerning an OIG audit of the Philadelphia LTI school's administration of ATB testing. The report was issued under OIG audit control number A03-B0013 and covered the administration of ATB testing requirements at the Philadelphia LTI school from July 1, 1997 through November 7, 2000. The findings presented in the OIG report cited alleged deficiencies with respect to aspects of ATB test administration. We disagreed with the OIG findings and recommendations and submitted detailed comments to the DOE's Philadelphia Case Management Team explaining our position. On October 31, 2003, we entered into a Settlement Agreement with the DOE constituting a complete accord and satisfaction and final resolution of the findings in the OIG final audit report.

Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments. An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. In November 2002, the DOE published new regulations which attempt to clarify this so-called "incentive compensation rule." Failure to comply with the incentive compensation rule could result in loss of ability to participate in Title IV Programs or in fines or liabilities. We believe that our current compensation plans are in compliance with the HEA and the DOE's new regulations, although we cannot assure you that DOE will not find deficiencies in our compensation plans.

Eligibility and Certification Procedures. Each institution must periodically apply to the DOE for continued certification to participate in Title IV Programs. The institution must also apply for recertification when it undergoes a change in ownership resulting in a change of control. The institution also may come under DOE review when it undergoes a substantive change that requires the submission of an application, such as opening an additional location or raising the highest academic credential it offers. The DOE agreed that the addition of the holding company to our ownership structure in 2003 would not constitute a change in ownership of our schools resulting in a change of control provided that certain conditions were met, including that the holding company execute the program participation agreement for each institution. See "Regulatory Environment—Reorganization" for a description of our reorganization in 2003. The holding company has executed a program participation agreement for each of our institutions, except for NETI, which has executed a TPPPA. The DOE has countersigned all of the executed program participation agreements except the program participation agreement for Southwestern and the NETI TPPPA. We expect the DOE to countersign the Southwestern program participation agreement (or, alternatively, to issue a new agreement to be signed by Southwestern and the DOE) and the NETI TPPPA, but no assurance can be given as to when or if the DOE will do so. In addition, the DOE requested that the institutions submit audited financial statements of both the holding company and the subsidiary companies as consolidating statements. We expect to submit consolidating information for the 2004 fiscal year for LTI and Southwestern.

The DOE may place an institution on provisional certification status if it determines that the institution does not fully satisfy certain administrative and financial standards or if the institution undergoes a change in ownership resulting in a change of control. The DOE may withdraw an institution's provisional certification with the institution having fewer due process protections than if it were fully certified. In addition, the DOE may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change. Provisional certification does not otherwise limit an institution's access to Title IV Program funds. Southwestern received and signed a provisional program participation agreement issued by the DOE after we acquired it and is currently waiting to receive the countersigned agreement from the DOE or, alternatively, to receive a new agreement to be signed by it and the DOE. In connection with our acquisition of NETI, we have received a TPPPA from the DOE, which we are waiting for the DOE to countersign and are in the process of obtaining final approval of the NETI acquisition from the DOE. We expect the DOE approval issued to NETI at the conclusion of the pending change in ownership approval process to be provisional although we can provide no assurance as to the timing and content of the DOE's response to the pending change in ownership application.

All institutions are recertified on various dates for various amounts of time. The following table sets forth the expiration dates for each of our institutions' current program participation agreement:

Institution	Expiration Date of Current Program Participation Agreement
Allentown, PA	September 30, 2007
Columbia, MD	September 30, 2007
Philadelphia, PA	September 30, 2007
Denver, CO	December 31, 2009
Lincoln, RI	March 31, 2008
Nashville, TN	June 30, 2008
Somerville, MA	March 31, 2008
Edison, NJ	September 30, 2007
Union, NJ	September 30, 2007
Grand Prairie, TX	March 31, 2009
Indianapolis, IN	March 31, 2009
Melrose Park, IL	March 31, 2009
Dayton, OH	March 31, 2007*
New Britain, CT	March 31, 2007**

* Waiting on countersigned Provisional Program Participation Agreement or, alternatively, to receive a new agreement to be signed by it and the DOE.

** Waiting on countersigned Temporary Provisional Program Participation Agreement and final DOE approval of change in ownership.

Compliance with Regulatory Standards and Effect of Regulatory Violations. 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. The DOE conducted a program review at Southwestern and issued an initial program review report in which it identified potential instances of non-compliance with DOE requirements. Southwestern has submitted an initial response to the report, is in the process of submitting additional information to the DOE and is waiting for a response or determination from the DOE. The DOE also conducted a program review at NADC and issued a final program review determination stating that NADC had taken the required corrective actions to resolve four of five findings of noncompliance with DOE requirements and requiring that NADC pay the DOE $14,499 based on the fifth finding. NADC expects to pay this amount to the DOE.

If one of our schools failed to comply with accrediting or state licensing requirements, such school and its main and/or branch campuses could be subject to the loss of state licensure or accreditation, which in turn could result in a loss of eligibility to participate in Title IV Programs. If the DOE determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the Higher Education Act or DOE regulations, the institution could be required to repay such funds and related costs to the DOE and lenders, and could be assessed an administrative fine. The DOE could also place the institution on provisional certification and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the students' eligibility for Title IV Program funds before receiving such funds from the DOE. The DOE has informed us that as a result of our recomputed composite scores for the 2001 and 2002 fiscal years, all of our current and future institutions have been placed on "Heightened Cash Monitoring, Type 1 status" for a period of three years effective December 30, 2004 and are required to timely notify the DOE with respect to certain enumerated oversight and financial events. The DOE has also informed us that these accounting charges will be taken into consideration when each of our institutions applies for recertification of its eligibility to participate in Title IV Programs.

Significant violations of Title IV Program requirements by us or any of our institutions could be the basis for a proceeding by the DOE to limit, suspend or terminate the participation of the affected institution in Title IV Programs or to civil or criminal penalties. Generally, such a termination extends for 18 months before the institution may apply for reinstatement of its participation. There is no DOE proceeding pending to fine any of our institutions or to limit, suspend or terminate any of our institutions' participation in Title IV Programs.

We and our schools are also subject to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by third parties, such as present or former students or employees and other members of the public. If we are unable to successfully resolve or defend against any such complaint or lawsuit, we may be required to pay money damages or be subject to fines, limitations, loss of federal funding, injunctions or other penalties. Moreover, even if we successfully resolve or defend against any such complaint or lawsuit, we may have to devote significant financial and management resources in order to reach such a result.

Lenders and Guaranty Agencies. In 2004, six lenders provided funding to more than 91% of the students at the schools we owned during that year: Bank One, N.A., SLMA Wilmington Trust, Citibank Student Loan Corporation, SunTrust Bank, JPMorgan Chase Bank, Educaid (Wachovia), and ASAP Union Bank & Trust. While we believe that other lenders would be willing to make federally guaranteed student loans to our students if loans were no longer available from our current lenders, there can be no assurances in this regard. In addition, the HEA requires the establishment of lenders of last resort in every state to ensure that loans are available to students at any school that cannot otherwise identify lenders willing to make federally guaranteed loans to its students.

Our primary guarantors for Title IV loans are USA Group, a subsidiary of Sallie Mae, and New Jersey Higher Education Assistance Authority, an independent agency of the State of New Jersey. These two agencies currently guarantee 91% of all federally guaranteed student loans made to students enrolled at our schools. There are six other guaranty agencies that guarantee student loans made to students enrolled at our schools. We believe that other guaranty agencies would be willing to guarantee loans to our students if any of the guarantee agencies ceased guaranteeing those loans or reduced the volume of loans they guarantee, although there can be no assurances in this regard.

MANAGEMENT

Directors and Executive Officers

We expect that the following persons will be our executive officers and directors at the time of this offering:

Name	Age as of December 31, 2004	Position Held
David F. Carney(1)	64	Chief Executive Officer and Chairman of the Board of Directors
Lawrence E. Brown	57	President, Chief Operating Officer
Scott M. Shaw	42	Senior Vice President, Strategic Planning & Development
Cesar Ribeiro	40	Vice President, Chief Financial Officer and Treasurer
Alexandra M. Luster	40	Vice President and General Counsel
Thomas McHugh	57	Vice President of Compliance and Review
Stephen M. Buchenot	49	Group Vice President of Operations
Deborah Ramentol	52	Group Vice President of Operations
Edward B. Abrams	54	Group Vice President of Operations
Ronald L. Beall	61	Group Vice President of Operations
Anthony A. Stanziani	47	Group Vice President of Operations
Alexis P. Michas(1)(3)(4)	47	Director
James J. Burke, Jr.(1)(3)(4)	53	Director
Steven W. Hart(3)	48	Director
Jerry G. Rubenstein(2)(5)	74	Director
John Petillo(2)(5)	57	Director
Paul Glaske(3)(4)(5)	71	Director
Peter S. Burgess(2)(5)	62	Director

(1) Member of the executive committee.

(2) Member of the audit committee.

(3) Member of the compensation committee.

(4) Member of the governance committee.

(5) Independent director.

David F. Carney joined Lincoln in 1999 as Chief Executive Officer and Chairman of the Board of Directors, prior to which he served as a consultant following the sale of his two school companies to Computer Learning Centers, Inc. Previously, Mr. Carney spent 20 years in various capacities with British Oxygen Group Limited, including CFO and Vice President of Development of the Education Services Division which operated 25 technical schools. From 1990 to 1992, Mr. Carney was President of the Massachusetts Association of Private Career Schools. Mr. Carney received a B.S. from Seton Hall University. Mr. Carney has over 27 years of experience in the career education industry.

Lawrence E. Brown joined Lincoln in 1973 and currently serves as our President and Chief Operating Officer. Prior to taking this position, Mr. Brown held various positions with Lincoln including Assistant Director, Executive Director, Regional Vice President, Vice President of Operations and Executive Vice President. Mr. Brown oversees the operations of each of our 32 schools. He has also served as President of the Private Career Schools of New Jersey and State Captain of the Skills 2000 lobbying effort for the reauthorization of the Higher Education Act of 1992. Mr. Brown received a B.A. from Northern Illinois University. Mr. Brown has over 32 years of experience in the career education industry.

Scott M. Shaw joined Lincoln in 2001 and currently serves as our Senior Vice President, Strategic Planning & Development, prior to which he was a partner at Stonington where he had been since 1994. He was engaged in other private equity investing prior to joining Stonington. Mr. Shaw holds an M.B.A. from the Wharton School of Business and a B.A. from Duke University.

Cesar Ribeiro joined Lincoln in 2004 as Vice President, Chief Financial Officer and Treasurer. From June 2002 through June 2004, Mr. Ribeiro was self-employed providing both consulting services and private money management services. Prior to that, he was an audit partner with Arthur Andersen LLP, where he had been since 1987. Mr. Ribeiro holds a B.S. from Rutgers University.

Alexandra M. Luster joined Lincoln in 1995 and currently serves as our Vice President and General Counsel, prior to which she practiced law in the private arena for four years. Mrs. Luster received a B.A. from Fordham University and her Juris Doctor from Seton Hall University School of Law.

Thomas McHugh joined Lincoln in 2000 and currently serves as our Vice President of Compliance and Review. Mr. McHugh is responsible for all financial aid issues with a focus on insuring that our policies and actions with regard to financial aid are in compliance with applicable federal regulations. From 1998 to 2000, Mr. McHugh was the Director of Review and Analysis for Computer Learning Centers, Inc. Mr. McHugh is a graduate of Fordham University and holds a Master's Degree from Rutgers University. Mr. McHugh has over 25 years of experience in the career education industry.

Stephen M. Buchenot joined Lincoln in 1996 and has held various management positions with us, prior to which he worked for National Education Corporation and Allied Education Corporation. Currently he oversees the operations of five of our schools. Mr. Buchenot received a B.A. from Loyola University, Chicago, Illinois. Mr. Buchenot has 22 years of experience in the career education industry.

Deborah Ramentol has held various management positions with us since joining Lincoln in 1974. Currently, she oversees the operation of eight schools. She has served on the Administrative Board of the Private Career School Association of New Jersey for 11 years. She was also on the Skills 2000 Team supporting state-level lobbying efforts during the 1998 Reauthorization of the Higher Education Act. Mrs. Ramentol has 30 years of experience in the career education industry.

Edward B. Abrams joined Lincoln in 2001, prior to which he worked for Computer Learning Centers, Inc. from 1996 to 2001. Mr. Abrams oversees the operation of eight schools, five of which are the newly acquired Southwestern schools. He received a B.S. in Business from Nathaniel Hawthorne College, Antrim, New Hampshire. Mr. Abrams has more than 31 years experience in the career education industry.

Ronald L. Beall joined Lincoln in 2000, prior to which he worked for Career Blazer, an owner and operator of IT Schools, as Chief Operating Officer from 1999 to 2000. From 1997 to 1999 he was a regional school director for Ultrasound Diagnostic School, a Whitman Education School. Mr. Beall has more than 30 years experience in the career education industry.

Anthony A. Stanziani joined Lincoln in 2004 after seven years with The Chubb Institute as Regional Vice President of its Northeast Region. He was President and owner of The Teff School in White Plains, NY from 1987 to 1997, following a progressive nine-year career with The Westchester Business Institute, a degree granting institution of higher learning, in which his last position was Senior Vice President. Additionally, Mr. Stanziani serves as the Chairman of the New York State Advisory Council for Licensed Trade and Registered Business Schools. Formerly, he served as the Vice Chairman of the Commission of the Accrediting Council for Continuing Education and Training (ACCET); member of the NYS Advisory Council for Higher Education; President of NYS Registered Business School Association; Vice President of the Coalition of NYS Career Schools; Vice President of the Dystrophic Epidermolysis Bullosa Researchers of America; and Founder and President of the

April Ann Stumpf Memorial Fund. He possesses a B.S. in Business Administration and Accounting and a M.S. in Organizational Leadership from Mercy College, Dobbs Ferry, New York.

Alexis P. Michas has served on our board of directors since 1999. He has been the Managing Partner and a director of Stonington since 1994. Mr. Michas also served as a consultant to Merrill Lynch Capital Partners, Inc., a private investment firm associated with Merrill Lynch & Co., Inc., from 1994 through 2000. Mr. Michas received a B.A. from Harvard University and an M.B.A. from Harvard University Graduate School of Business Administration. Mr. Michas also is a director of BorgWarner Inc. and Perkin Elmer, Inc.

James J. Burke, Jr. has served on our board of directors since 1999. He has been a partner and director of Stonington since 1994. Mr. Burke also served as a consultant to Merrill Lynch Capital Partners, Inc., a private investment firm associated with Merrill Lynch & Co., Inc., from 1994 through 2000. Mr. Burke was formerly Chairman of Erie World Entertainment L.L.C., a restaurant company that was reorganized under Chapter 11 of the U.S. Bankruptcy Code in 2001. He received a B.A. from Brown University and an M.B.A from Harvard University Graduate School of Business Administration. Mr. Burke also serves on the board of directors of Ann Taylor Stores Corporation.

Steven W. Hart has served on our board of directors since 1999. Mr. Hart is the owner and President of Hart Capital LLC, a private investment fund that invests primarily in the education sector, which is the managing member of Five Mile River Capital Partners LLC. Mr. Hart has more than 20 years of experience as a principal investing in and managing companies in a wide range of industries, and has actively served in several not-for-profit capacities. From 1995 to 2003, he served as Chairman of the Investment Advisory Council which advises the State Treasurer regarding the management of the State of Connecticut Retirement Plans & Trust Funds. From 1996 to 2003, he served as Trustee and then Chairman of the Stanford University Business School Endowment Trust. Mr. Hart is on the Board of Trustees of the South Street Seaport Museum. Mr. Hart received a B.A. in Mathematics and Economics from Wesleyan University and an M.B.A. from Stanford University Graduate School of Business.

Jerry G. Rubenstein has served on our board of directors since 1999. Mr. Rubenstein has organized and managed several entrepreneurial ventures, including OMNI Management Associates, where he has served as Managing Partner since 1974. Mr. Rubenstein currently serves on the boards of directors of The Philadelphia Chamber Music Society (as Chairman), Marlboro Music School, Inc., The Curtis Institute of Music and Foreign Policy Research Institute. Mr. Rubenstein received his bachelor of business administration from the City College of New York.

John Petillo has served on our board of directors since 2004. Dr. Petillo is currently the President of the University of Medicine and Dentistry of New Jersey. During his career in the education industry, Dr. Petillo served as Chancellor of Administration for the Archdiocese of Newark where he was responsible for over 240 parishes and 200 schools. In addition, he served as Chancellor of Seton Hall University for 13 years as well as President of Blue Cross Blue Shield of New Jersey. Dr. Petillo served as Chairman, President and Chief Executive Officer of Cane Advantage and as regional Vice President of First Union Insurance. Dr. Petillo currently serves as Vice-Chairman of the board of directors of the Newark Alliance. Dr. Petillo received his Bachelor of Arts and Master of Arts from Seton Hall University, a master of divinity from Darlington School of Theology and a doctorate from Fordham University.

Paul Glaske has served on our board of directors since 2004. Mr. Glaske was Chairman and Chief Executive Officer from April 1992 until his retirement in 1999 of Blue Bird Corporation, a leading manufacturer of school buses, motorhomes and a variety of other vehicles. He currently serves on the board of directors of BorgWarner Inc., Camcraft, Inc., Energy Transfer Partners, the Texas Association of Business, and is currently the Chairman of the Board of Trustees of LeTourneau University. Mr. Glaske earned his B.S. in Business Administration from Bob Jones University and his M.B.A. from Pepperdine University.

Peter S. Burgess, CPA was elected to our board of directors on July 8, 2004. In 1999, Mr. Burgess retired from Arthur Andersen LLP where he was an accounting and business advisory partner serving numerous manufacturing, insurance and financial services enterprises. Following his retirement, he has provided consulting services specializing in litigation support, mergers and acquisitions and audit committee responsibilities under securities exchange requirements and the Sarbanes-Oxley Act. Mr. Burgess is also Chairman of the Audit Committee of PMA Capital Corporation and serves as a director of Duncaster Inc., a not-for-profit continuing care retirement community. Mr. Burgess earned a B.S. in Business Administration from Lehigh University.

Our Board of Directors

Upon completion of this offering, our board will consist of eight persons. We are currently a controlled corporation under the rules of The Nasdaq National Market as Stonington holds, and will continue to hold after the offering, over 50% of the voting power of our company. As required by the rules of The Nasdaq National Market, our independent directors will hold regularly scheduled meetings at which only independent directors are present.

Our executive officers are appointed by the board on an annual basis and serve until their successors have been duly elected. There are no family relationships among any of our directors or executive officers.

Committees of the Board

At the time of this offering, we expect that our board will have an executive committee, an audit committee, a compensation committee and a governance committee. The composition, duties and responsibilities of these committees are set forth below. Committee members will hold office for a term of one year. After this offering, our board may designate new committees, as it deems appropriate, to assist with its responsibilities.

The Executive Committee

We expect that our board will designate an executive committee consisting of at least three directors. It is currently anticipated that Messrs. Carney (Chairman), Burke and Michas will serve on the executive committee. When the board of directors is not in session and between board meetings, or when it would not be practical for the full board to meet to review or act upon any matter, the executive committee will have and may exercise all the powers and authority of the board of directors in the management of our business and affairs, except as provided (1) in our amended and restated certificate of incorporation, (2) in our bylaws, or (3) by any action of the board of directors.

Audit Committee

We expect that our board will designate an audit committee consisting of at least three directors, at least one of whom is an "audit committee financial expert" as defined in the rules of the SEC. It is currently anticipated that Mr. Burgess (Chairman), Dr. Petillo and Mr. Rubenstein will serve on the audit committee. Mr. Burgess and Mr. Rubenstein are "audit committee financial experts." Each member of the audit committee will be able to read and understand financial statements at the time such member is appointed. The composition of the audit committee will satisfy the independence requirements of The Nasdaq National Market and the SEC.

The audit committee will have at least four regular meetings each year. The result of each meeting is to be reported at the next regular meeting of our board.

The audit committee will have the responsibility for overseeing:

- our accounting and financial reporting processes;

- the quality and integrity of our financial statements;
- the quality and integrity of our system of internal controls;
- our compliance with laws and regulations;
- our independent auditor's qualifications and independence; and
- the audit of our financial statements by a qualified independent auditor.

To fulfill these responsibilities, the audit committee will:

- be aware of the current areas of greatest financial risk to us and understand management's assessment and management of the risks;
- consider the effectiveness of our disclosure controls and procedures to promote timely, accurate, compliant and meaningful disclosure in our periodic reports filed with the SEC;
- periodically review with the independent auditors their assessment as to the adequacy of our structure of internal controls over financial accounting and reporting, and their qualitative judgments as to the accounting principals employed and related disclosures by us and the conclusions expressed in our financial reports;
- review with management and the independent auditors our accounting policies and practices to ensure they meet the requirements with respect to the FASB, the SEC and the American Institute of Certified Public Accountants;
- select, evaluate and, if necessary, replace our independent auditors;
- actively engage in dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity or independence of the independent auditors;
- engage advisors, as the committee determines is necessary, to carry out its duties;
- meet with the independent auditors, the internal auditors and senior management to review the scope and methodology of the proposed audit;
- discuss with management policies and practices regarding earnings press releases, as well as financial information and earnings guidelines provided to analysts and rating agencies;
- set clear hiring policies with respect to any current or former employees of our independent auditors; and
- establish procedures for the receipt, retention and treatment of complaints we receive regarding our internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of their concerns regarding our internal accounting controls and auditing matters.

Compensation Committee

We expect that our board will designate a compensation committee that will consist of at least three directors. It is currently anticipated that Messrs. Burke (Chairman), Glaske, Hart and Michas will serve on the compensation committee. The composition of the compensation committee will not satisfy the independence requirements of The Nasdaq National Market because we are a controlled company. The governance committee will recommend any nominees for the compensation committee to our full board. The compensation committee will meet at least twice during each fiscal year. The primary responsibility of the compensation committee will be to develop and oversee the implementation of our philosophy with respect to the compensation of our officers. In that regard, the compensation committee will:

- develop and maintain a compensation policy and strategy that creates a direct relationship between pay levels and corporate performance and returns to stockholders;
- recommend compensation and benefit plans to our board for approval;
- review and approve annual corporate and personal goals and objectives to serve as the basis for the chief executive officer's compensation, evaluate the chief executive officer's performance in light of the goals and, based on such evaluation, determine the chief executive officer's compensation;
- determine the annual total compensation for our named executive officers;
- with respect to our equity-based compensation plans, approve the grants of stock options and other equity based incentives as permitted under our compensation plans;
- review and recommend compensation for non-employee directors to our board; and
- review and recommend employment agreements, severance arrangements and change of control plans that provide for benefits upon a change in control, or other provisions for our executive officers and directors, to our board. It is intended that arrangements for change of control benefits for our executive officers will be considered by the compensation committee after this offering.

Governance Committee

We expect that our board will designate a governance committee that will consist of at least three directors. It is currently anticipated that Messrs. Michas (Chairman), Burke and Glaske will serve on the governance committee. The composition of the governance committee will not satisfy the independence requirements of The Nasdaq National Market because we are a controlled company. The governance committee will:

- identify individuals qualified to serve as our directors;
- recommend qualified individuals for election to our board of directors at annual meetings of stockholders; and
- monitor compliance with and recommend changes to corporate governance guidelines to our board.

To fulfill these responsibilities, the governance committee will:

- review periodically the composition of our board;
- identify and recommend director candidates for our board;
- recommend to our board nominees for election as directors;
- recommend to our board the composition of the committees of the board;
- review periodically our corporate governance guidelines and recommend governance issues that should be considered by our board;
- review periodically our committees' charters, duties and powers and operations and the working relationship between each committee and the board;
- review periodically our code of conduct and obtain confirmation from management that the policies included in the code of conduct are understood and implemented; and

- consider, discuss and recommend ways to improve our board's effectiveness.

Director Compensation

After this offering, each non-employee director will receive a $25,000 annual retainer, $60,000 in restricted stock awards, an annual restricted stock award of $30,000 payable at the annual meeting or restricted stock unit award to receive shares of our common stock under our 2004 Non-Employee Directors Restricted Stock Plan (described in more detail below) and $1,000 per board meeting attended in person or by telephone. The chairman of each committee of the board will receive an additional $500 per board meeting attended.

Non-employee directors on committees of the board will each receive an additional payment of $1,000 for each committee meeting attended on a day other than the day of a board meeting for which that director has been compensated. The audit committee chairman will receive an additional $10,000 annual retainer.

Compensation Committee Interlocks and Insider Participation

Upon completion of this offering, none of our executive officers will serve on the compensation committee or board of directors of any other company of which any of the members of our compensation committee or any of our directors is an executive officer. While serving as one of our officers, Mr. Carney will not serve as a member of our compensation committee.

Limitation of Liability and Indemnification

Our certificate of incorporation and bylaws limit the liability of directors to the maximum extent permitted by New Jersey law. Specifically, a director will not be personally liable for monetary damages for breach of fiduciary duty as a director, except liability for:

- any breach of their duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve a knowing violation of the law; or
- any transaction from which the director derived an improper personal benefit.

The limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our bylaws provide that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our bylaws also provide that we shall advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding and we may advance expenses incurred by our employees or other agents in advance of the final disposition of any action or proceeding. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in his or her capacity as an officer, director, employee or other agent. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain the services of highly qualified persons as directors and officers.

The limited liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any director, officer or employee in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted for directors, officers and controlling persons of us pursuant to the foregoing provisions or otherwise, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

Executive Compensation

The table below sets forth summary information concerning the compensation awarded to our chief executive officer and our four most highly compensated executive officers other than our chief executive officer during 2004. The individuals listed below are referred to in this prospectus as our "named executive officers."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
Name & Principal Position	Year	Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Award(s)	Securities Underlying Options SARs	All Other Compensation (2)
David F. Carney *Chairman of the Board and Chief Executive Officer*	2004	$ 360,000	$ 460,000	—	—	—	$ 3,900
Lawrence E. Brown *President and Chief Operating Officer*	2004	300,000	213,792	—	—	—	3,900
Scott M. Shaw *Senior Vice President, Strategic Planning and Business Development*	2004	270,000	192,595	—	—	—	3,900
Stephen M. Buchenot *Group Vice President*	2004	175,000	69,360	—	—	—	3,900
Deborah Ramentol *Group Vice President*	2004	175,000	73,533	—	—	—	3,900

(1) In accordance with the rules of the SEC, other annual compensation in the form of perquisites and other personal benefits has been omitted because such perquisites and other personal benefits constitute less than the lesser of $50,000 or ten percent of the total salary and bonus reported for the named executive officers during fiscal 2004.

(2) The compensation disclosed in this column represents matching contributions made by us under our 401(k) Plan to each of our named executive officers during fiscal 2004.

Option Grants During 2004 Fiscal Year

We did not grant any stock options to our named executive officers during fiscal 2004.

Aggregated Option Exercises in 2004 Fiscal Year and 2004 Fiscal Year-End Option Values

The table below sets forth information related to stock options exercised by the named executive officers during the 2004 fiscal year and the number and value of stock options held as of December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options as of December 31, 2004		Value of Unexercised In-the-Money Options at FY-End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David F. Carney	0	0	238,682	223,768	$	$
Lawrence E. Brown	0	0	147,052	148,848		
Scott M. Shaw	0	0	142,638	142,862		
Stephen M. Buchenot	0	0	18,226	23,899		
Deborah Ramentol	0	0	18,226	23,899		

(1) There was no public market for our common stock on December 31, 2004. Accordingly these values have been calculated in accordance with the rules of the SEC, on the basis of the initial public offering price per share of $, less the applicable per share exercise price.

Pension Plan

We maintain a qualified defined benefit pension plan (the "Pension Plan"), which is currently frozen. Benefit accruals under the Pension Plan were frozen for non-union employees as of December 31, 1994. As of such date, the annual pension benefits that would be payable at age 65 under the Pension Plan to our eligible named executive officers, calculated on the basis of a single-life annuity, are as follows: Mr. Brown: $25,913.88; Mr. Buchenot: $2,672.28; and Ms. Ramentol: $10,204.08. Messrs. Carney and Shaw are not eligible for pension benefits under the Pension Plan. The pension benefits available under the Pension Plan are not subject to any reduction for Social Security or other offset amounts.

Compliance with Section 16(a) of the Exchange Act

During fiscal year 2004, none of our executive officers, directors or greater than 10% stockholders were required to comply with Section 16(a) of the Securities Exchange Act of 1934, as amended, with respect to our common stock because our company had not yet become public, and therefore, such persons were not subject to the reporting requirements under Section 16.

Employment-Related Arrangements

The employment agreements for each of David F. Carney, Lawrence E. Brown, Scott M. Shaw, and Cesar Ribeiro will be amended prior to the completion of this offering. The descriptions of the employment agreements below reflect these amendments.

Employment Agreement with David F. Carney

Employment Period. We have entered into an employment agreement, dated January 1, 2005, as amended on , 2005, with David F. Carney, which agreement supersedes the employment agreement, dated January 1, 2003, between us and Mr. Carney. The agreement provides that Mr. Carney will serve as our Chairman and Chief Executive Officer. The initial period of his employment term will terminate on January 1, 2007.

Compensation and Benefits. We have agreed that we will compensate Mr. Carney with a minimum annual base salary of $375,000. Mr. Carney will also be eligible to earn an annual bonus for each calendar year during the term of his employment, the amount of which will be based upon performance targets or such other criteria set by our board of directors or our compensation committee pursuant to the terms of our key management team incentive compensation plan in effect for such calendar year. Mr. Carney will also be included, to the extent eligible, in all of our 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 are established for, or made available to, our senior executives. We currently provide Mr. Carney with an automobile for business and personal use and pay for associated costs, including automobile insurance, parking and fuel, in accordance with our practices as consistently applied to other key employees. In addition, we will furnish Mr. Carney with coverage by our customary director and officer indemnification arrangements, subject to applicable law.

Involuntary Termination. In the event that during Mr. Carney's employment term, there is an "Involuntary Termination" (as defined hereinafter) of Mr. Carney's employment, we will pay him: (1) two times the amount of his base salary, as is then in effect; (2) two times the average of his annual bonus; (3) all outstanding reasonable travel and other business expenses incurred as of the date of his termination; and (4) the employer portion of the premiums necessary to continue his health care coverage for the earlier of (A) one year and (B) the date on which he is covered under another group health plan. Mr. Carney will also be entitled to (1) the continued use of an automobile and payment of associated costs by us for the greater of (A) one year and (B) the remainder of his employment term and (2) receive any other accrued compensation and benefits otherwise payable to him as of the date of his termination. All the aforementioned payments would be paid by us in a lump-sum amount no later than 30 days after the date of his termination. This lump sum payment may be deferred for six months, if necessary, to comply with the American Jobs Creation Act of 2004. For purposes of Mr. Carney's employment agreement, "Involuntary Termination" means the termination of his employment (1) by us (or any successor thereto) without "Cause" (as defined in his employment agreement) or (2) by Mr. Carney for "Good Reason" (as defined in his employment agreement).

Termination for Cause, Death or Disability; Resignation other than for Good Reason. In the event that during Mr. Carney's employment term, Mr. Carney's employment is terminated by us for Cause, or Mr. Carney resigns from his employment other than for Good Reason, we will pay him (or his estate, if applicable) his accrued but unpaid base salary earned through the date of termination, unreimbursed expenses, plus any other accrued but unpaid employee benefits earned through the date of his termination, including, without limitation, any annual bonus due but not yet paid for a completed calendar year.

Change in Control. Upon a Change in Control (as defined in his employment agreement), of which an initial public offering does not constitute a change in control, we (or our successor) will continue the employment of Mr. Carney, and Mr. Carney will continue performing services for us for a period of two years commencing on the date of the Change in Control and ending on the second anniversary thereof. Upon a Change in Control, all outstanding stock options granted by us or any of our affiliates to Mr. Carney will become fully vested and immediately exercisable on the date of the Change in Control.

During a 30-day period commencing on the first anniversary of the date of the Change in Control, Mr. Carney will have the right to resign from his employment with us (or our successor) for any reason and receive an amount equal to (i) one times the amount of his base salary, as is then in effect, and (ii) one times the average of his annual bonus paid to him for the two years immediately prior to the year in which such resignation occurs. If, however, such resignation constitutes an Involuntary Termination (as defined above), he will receive payments in accordance with an Involuntary

Termination. All of the aforementioned payments would be paid by us in a lump-sum amount no later than 30 days after the date of his termination.

Reduction in Payments. The employment agreement contains a Code Section 280G "cusp" provision. In the event that any payment or distribution by us to or for the benefit of Mr. Carney pursuant to the terms of the employment agreement or otherwise would be considered a "parachute payment" and the amount of the parachute payment, after deduction of all relevant taxes, including excise taxes imposed by Code Section 4999, is less than the amount Mr. Carney would receive if he was paid three times his average "base amount" less $1.00, then the aggregate amounts constituting the parachute payment will be reduced (or returned by Mr. Carney if already paid to him) to an amount that will equal three times his average "base amount" less $1.00.

Noncompetition. Mr. Carney is subject to a noncompetition restrictive covenant during the term of his employment and for one year thereafter, although the covenant will not apply if his employment is terminated due to an Involuntary Termination or he resigns during the 30-day period commencing on the first anniversary of a Change in Control.

Nonsolicitation. Mr. Carney is subject to a nonsolicitation restrictive covenant of clients, employees and key consultants during the term of this employment and for one year thereafter.

Confidentiality. Mr. Carney is subject to a confidentiality restrictive covenant of unlimited duration.

Arbitration. Any dispute or controversy arising under or in connection with Mr. Carney's employment agreement that cannot be mutually resolved by him and us will be settled exclusively by arbitration in West Orange, New Jersey. The cost of the arbitration will be borne by the parties in the manner determined by the arbitrators.

Waiver and Release. Our obligations under Mr. Carney's employment agreement are subject to Mr. Carney executing and delivering a waiver and release (relating to his release of claims against us) in a form reasonably and mutually agreed upon.

Employment Agreement with Lawrence E. Brown

We have entered into an employment agreement, dated January 3, 2005, as amended on , 2005, with Lawrence E. Brown, which agreement supersedes the employment agreement, dated January 1, 2003, between us and Mr. Brown. The terms of this employment agreement are identical to those set forth in Mr. Carney's employment agreement described above, except that, pursuant to his employment agreement, Mr. Brown will serve as President and Chief Operating Officer, and he will receive a minimum annual base salary of $330,000. In addition, in the event of an Involuntary Termination of Mr. Brown's employment term, he shall only be entitled to receive a payment of one and one half times his base salary and annual bonus.

Employment Agreement with Scott M. Shaw

We have entered into an employment agreement, dated January 3, 2005, with Scott M. Shaw, as amended on , 2005, which agreement supersedes the employment agreement, dated January 1, 2003, between us and Mr. Shaw. The terms of this employment agreement are identical to those set forth in Mr. Carney's employment agreement described above, except that, pursuant to his employment agreement, Mr. Shaw will serve as Senior Vice President, Strategic Planning and Business Development, and he will receive a minimum annual base salary of $280,000. In addition, in the event of an Involuntary Termination of Mr. Shaw's employment term, he shall only be entitled to receive a payment of one times his base salary and annual bonus.

Employment Agreement with Cesar Ribeiro

We have entered into an employment agreement, dated January 3, 2005, as amended on , 2005, with Cesar Ribeiro. The terms of this employment agreement are identical to those set forth in Mr. Carney's employment agreement described above, except that, pursuant to his employment agreement, Mr. Ribeiro will serve as Vice President, Chief Financial Officer and Treasurer, and he will receive a minimum annual base salary of $250,000. In addition, in the event of an Involuntary Termination of Mr. Ribeiro's employment term, he shall only be entitled to receive a payment of one times his base salary and annual bonus.

Existing Employee Benefit Plans

Management Stock Option Plan

We have granted awards under our Management Stock Option Plan since the plan became effective on January 1, 2002. Upon completion of this offering, all awards outstanding under our Management Stock Option Plan will continue to be subject to the terms and conditions of the plan; however, no further awards will be granted under the plan.

Awards. Our Management Stock Option Plan permits the grant of nonqualified stock options and incentive stock options to purchase shares of our common stock (we collectively refer to nonqualified stock options and incentive stock options as "options"). The terms and conditions of an option grant are set forth in a related option agreement.

Shares Subject to Plan. We have reserved up to 2,087,835 shares of our common stock underlying options pursuant to the plan. The maximum number of shares of common stock that may be issued in connection with incentive stock options is 1,043,917. The plan contains standard anti-dilution provisions.

Administration. The plan is administered by our board of directors or by our compensation committee of our board. Our board and our compensation committee have the discretion to select those to whom options will be granted (from among those eligible) and to determine the exercise price, the duration and other terms and conditions of the options, subject to the terms of the plan. Our board may authorize our compensation committee to exercise any and all of the powers and functions of our board pursuant to the plan. Our board or our compensation committee will have the authority to interpret and construe the plan, and any interpretation or construction of the provisions of the plan or of any options granted under the plan by our board or our compensation committee will be final and conclusive. No member of our compensation committee or of our board will be liable for any action or determination made in good faith with respect to the plan or any options granted under it.

Eligibility. Options may be granted to our key employees, consultants and non-employee directors or to key employees, consultants and non-employee directors of our subsidiaries who are selected by our board or our compensation committee.

Exercise Price. Our board or our compensation committee determines the exercise price of the options, although the price for an incentive stock option must not be less than 100% of the fair market value of a share of our common stock on the date of grant, as determined in good faith by our compensation committee in accordance with Section 422 of the Code.

Vesting of Options. Our board or our compensation committee may designate options as service options or performance options and provide vesting schedules for such grants. Generally, one-half of the options granted in any one option grant vest automatically over a five-year period (20% of the options vesting each year), so long as the participant remains employed by us or any of our subsidiaries or the director remains a member of our board or the board of any of our subsidiaries (we refer to these options as the "service options"). The other one-half generally vest at a rate of up to 20% per year subject to our achievement of certain predetermined financial performance goals (we refer to these options as the "performance options"). Performance options will vest and become exercisable on the April 15th following the year in which the target performance goals are achieved, so long as the participant remains employed by us or any of our subsidiaries or is no longer employed due to an involuntary termination (as defined in the management stockholders agreement). If the goals for a fiscal year are not achieved, none of the performance options subject to vesting for such fiscal year will become exercisable and such options will instead remain eligible to vest and become exercisable if certain cumulative goals are achieved. However, each performance option will become fully vested and immediately exercisable on the seventh anniversary of the date on which the performance option was granted.

Change in Control. In the event of a change in control (as defined in the plan), of which an initial public offering does not constitute a change in control, all outstanding unvested service options and all outstanding performance options will become fully vested and immediately exercisable on the effective date of such change in control. In the event of an initial public offering, performance options not yet vested will no longer be exercisable by their terms and will vest and become exercisable as if they were service options.

Duration of Options. Generally, options will terminate immediately upon an employee ceasing to be an employee, a consultant ceasing to be a consultant and a director ceasing to be a member of our board or the board of one of our subsidiaries. Options granted under the plan will terminate upon the earliest to occur of (i) the tenth anniversary of the date of the option agreement and (ii) the following dates: (a) the six-month anniversary of the date of death of the participant; (b) unless otherwise provided in an agreement between the participant and us, the 30-day anniversary of the date of the participant's retirement or disability (as defined in the management stockholders agreement) if the participant retires or is disabled while an employee, consultant or director, or the 30-day anniversary of the date of involuntary termination of the participant; and (c) immediately upon a participant's termination of employment, consultancy or directorship for cause or upon a participant's voluntary resignation; provided, however, in the event of (b) above, performance options will terminate on the 30-day anniversary of the later of (A) such termination of employment and (B) April 15th of the year in which such termination of employment occurred.

Cash-Out. Our board or our compensation committee may also, in its sole discretion, cancel the vested portion of options held by a participant whose employment, consultancy or directorship has terminated in exchange for a cash payment equal to the excess of the fair value price of the option (as defined in the plan) over the exercise price, multiplied by the number of shares of common stock subject to such cancelled options; provided, however, that our board or our compensation committee not exercise this right in contemplation of a change in control or an initial public offering. In addition, our board or our compensation committee may cancel any outstanding options in exchange for a cash payment to a participant equal to the excess of the fair market value (as determined in good faith by our board) of the consideration received per Stonington Share by Stonington (as defined in the management stockholders agreement) in any sale to a person which is not an affiliate (as defined in the management stockholders agreement) of us or Stonington of all the then issued and outstanding Stonington Shares over the exercise price of the option, multiplied by the number of shares of common stock subject to such cancelled options, effective upon consummation of such event.

Termination; Amendment. The plan will terminate upon, and no options will be granted after, the close of business on January 1, 2012, unless it is terminated sooner by all 2,087,035 option shares being granted and either fully exercised or cancelled as provided for in the plan. Our board may amend, suspend or discontinue this plan at any time, subject to applicable law, although our board may not alter or amend or discontinue or revoke or otherwise impair any outstanding options that have been granted and remain unexercised in a manner adverse to the holders, subject to anti-dilution provisions.

401(k) Plan

We maintain a plan qualified under Section 401(k) of the Code. Under our 401(k) plan, a participant may contribute a maximum of 25% of his or her pre-tax salary, commissions and bonuses through payroll deductions, up to the statutorily prescribed annual limit ($13,000 in calendar year 2004). The percentage elected by more highly compensated participants may be required to be lower. In addition, at the discretion of our board of directors, we may make discretionary matching and/or profit-sharing contributions into our 401(k) plan for eligible employees, which may be subject to vesting requirements.

With respect to each of the named executive officers, the following matching contributions were made on their behalf under our 401(k) plan for 2004: $3,900 for Mr. Carney; $3,900 for Mr. Brown; $3,900 for Mr. Shaw; $3,900 for Mr. Buchenot; and $3,900 for Ms. Ramentol.

Retirement Plan

We maintain a pension plan for certain employees, which is a defined benefit pension plan intended to qualify under Section 401(a) and Section 501(a) of the Code. This plan was frozen at December 31, 1994 for non-union employees. Our benefits are funded through employer contributions. Our employees are eligible to participate in the pension plan when they have satisfied the years of service and age requirements. The pension plan provides a benefit upon normal retirement (which is age 65) equal to: 1.5% of "average monthly earnings" (as defined in the pension plan) multiplied by the number of the participant's years of service up to a maximum of 35 years plus any past service accrued benefit. Average monthly earnings are generally the participants' average of monthly earnings, which includes items includible as compensation as described in the applicable Code regulations.

Participants generally become 100% vested in their benefits under the pension plan when they complete five years of service unless the plan is denied as a "top heavy plan" (as defined in the pension plan).

Benefits under the pension plan are normally payable in the form of a single-life annuity in the case of unmarried participants, and in the form of a joint and survivor annuity in the case of married participants. The pension plan has been frozen for non-union employees since December 31, 1994.

With respect to each of the named executive officers, the estimated credited full years of service under the pension plan as of the date of this prospectus are as follows: Mr. Carney, 0 years; Mr. Brown, 24 years; Mr. Shaw, 0 years; Mr. Buchenot, 12 years; and Ms. Ramentol, 29 years.

New Employee Benefit Plans

We also intend to adopt a number of new employee benefit plans prior to the completion of this offering. We expect these plans to be substantially as follows:

2005 Long-Term Incentive Plan

Upon completion of the offering, a new incentive compensation plan will go into effect, which we refer to in this prospectus as the incentive plan.

Eligibility. Any employee, officer or consultant of our company or any of our subsidiaries (as defined in the incentive plan) may be selected by our compensation committee to participate in the incentive plan.

Administration. The incentive plan will be administered by our compensation committee. As administrator of the incentive plan, our compensation committee has the authority, among other things, to determine eligibility to receive awards, the type of awards to be granted, the number of shares of stock subject to, or cash amount payable in connection with, the awards and the terms and conditions of each award (including vesting, forfeiture, payment, exercisability and performance periods and targets).

Our compensation committee will have the authority to interpret and construe the incentive plan, and all determinations made by our compensation committee in administering and interpreting the incentive plan will be final and conclusive for all purposes. Our compensation committee may delegate its authority under the incentive plan to one or more designees, or our board of directors may take administrative action with respect to the plan. No member of our board, our compensation committee or its designees will be liable for any action or determination made in good faith with respect to the incentive plan. The company will indemnify each such person against any such liability arising under the incentive plan, absent a showing of such person's fraud, willful misconduct or failure to act in good faith.

Awards. One or more of the following awards may be granted to participants under the incentive plan:

- stock options;
- restricted share units;
- performance share units;
- stock appreciation rights; and
- other equity awards.

All awards under the incentive plan are made in the discretion of our compensation committee. For this reason, it is not possible to determine the benefits or amounts of the awards that will be received by any particular employee or consultant of our company or any of our subsidiaries in the future under the incentive plan. No awards will be granted under the incentive plan until after the completion of this offering.

Stock Options. Stock options may be granted under the incentive plan, including incentive stock options (referred to as "ISOs"), which will comply in all respects with the provisions of Section 422 of the Internal Revenue Code, as amended (referred to as the "Code"), and nonqualified stock options (referred to as "NSOs"). The option exercise price (or the method for determining the exercise price) of all stock options granted under the incentive plan will be determined by our compensation committee at the time of grant, except that any ISO will not be granted at a price that is less than 100% of the fair market value of the stock on the date the exercise price is fixed. Stock options may be exercised as determined by our compensation committee, but in no event after the tenth anniversary of the date of grant. Our compensation committee will determine the form of payment of the exercise price of an option at the time of grant.

Restricted Share Units. A restricted share unit entitles a participant to receive, upon the lapse of certain restrictions, one or more shares of common stock in consideration for his or her employment or service with our company or our subsidiaries. Our compensation committee may, in its sole discretion, pay cash in lieu of shares or in combination with shares upon the lapse of restrictions applicable to a restricted share unit.

Performance Share Units. A performance share unit entitles a participant to receive, upon the satisfaction of certain conditions and/or lapse of restrictions, a target number of shares of common stock based upon the achievement of specified performance targets over a specified performance period. Performance share units will be settled, in the sole discretion of our compensation committee, through the delivery of shares of common stock, payment in cash or a combination of both.

Stock Appreciation Rights ("SAR"). A SAR entitles a participant to receive, upon satisfaction of certain conditions, an amount equal in value to the difference between the fair market value of a share of stock on the date of exercise of the SAR over the exercise price of the SAR. The exercise price (or method for determining the exercise price) of a SAR will be fixed by our compensation committee at the time of grant. SARs will be settled, in the sole discretion of our compensation committee, through the delivery of shares of common stock, payment in cash or a combination of both. A SAR may be granted alone or in tandem with a stock option.

Other Awards. Our compensation committee will have the authority to specify the terms and provisions of other forms of equity related awards not described above.

Performance Based Awards. Our compensation committee may determine whether any award granted under the incentive plan is intended to be "performance-based compensation" under

Section 162(m) of the Code and may act to preserve the deductibility of these awards for federal income tax purposes. Any awards designated as performance-based compensation will be conditioned on the achievement of one or more performance targets, to the extent required by Section 162(m) of the Code. The performance targets that may be used by our compensation committee for such awards will be based on measurable and attainable financial goals for our company, one or more of our subsidiaries or any combination of such entities, including net income, revenues, cash flow, operating margin, operating revenues, pre-tax operating income, operating income growth, return on assets, total shareholder return, share price, return on equity, diluted earnings per share or earnings per share growth, or any combination of the above as selected by our compensation committee, and quantifiable non-financial goals.

Each participant granted a performance-based award is assigned a target number payable if performance targets are achieved. If a participant's performance exceeds his or her performance targets, awards may be greater than 100% but no more than 200% of the target number. Our compensation committee retains the right to reduce any award if it believes that individual performance does not warrant the award calculated. In the event that all members of our compensation committee are not "outside directors" (as defined in Section 162(m) of the Code), the grant and terms of awards intended to qualify as performance-based compensation will be made by a subcommittee of our compensation committee consisting of two or more outside directors.

Shares Reserved for Issuance. Subject to certain adjustments, the maximum number of shares of our common stock that may be issued for all purposes under the incentive plan will be an aggregate of 1.0 million shares plus any shares of common stock remaining available for issuance under the prior plan. Any shares of our common stock that (i) correspond to awards under the incentive plan or the management stock option plan that are forfeited or expire for any reason without having been exercised or settled or (ii) are tendered or withheld to pay the exercise price of an award or to satisfy a participant's tax withholding obligations will be added back to the maximum number of shares available for issuance under the incentive plan. Shares of our common stock issued pursuant to awards under the incentive plan may be either treasury shares or authorized and unissued shares.

The maximum number of shares of common stock that may be subject to stock options granted to any participant during any calendar year is 150,000 shares. The maximum number of shares of common stock that may be subject to awards (other than stock options) granted to any participant during any calendar year is 150,000 shares. The maximum number of shares of common stock that may be subject to incentive stock options is 500,000 shares. The incentive plan contains standard anti-dilution provisions.

Termination of Employment; Change in Control and Acceleration Generally. Our compensation committee has the authority to determine the effect, if any, on the vesting, exercisability, payment or lapse of restrictions applicable to an award of a participant upon his or her termination of employment with our company and any of our subsidiaries or upon a change in control (as defined in the incentive plan) of our company, which effect may be specified at the time of grant or at a subsequent time. In connection with a participant's termination of employment, however, if such termination is for cause (as defined in the participant's award document under the incentive plan) or if our compensation committee fails to take any action to the contrary, any unexercised stock options (whether vested or not) and any unvested restricted share units, performance share units, stock appreciation rights or other awards granted to such participant will lapse and become void as of the date of such termination.

In all other circumstances, our compensation committee may, in its sole discretion, accelerate the vesting or payment of any award, the lapse of restrictions on any award or the date on which any award first becomes exercisable.

Amendment and Termination. Our board may, at any time, terminate, amend, modify or suspend the incentive plan, except that no amendment may be made that (i) increases the maximum number of shares available for issuance under the incentive plan without shareholder approval or (ii) adversely impairs or alters the rights of a participant with respect to any award outstanding without such participant's consent, unless necessary to comply with applicable laws or to ensure that an award is not subject to interest and penalties under Section 409A of the Code. Unless terminated earlier, the incentive plan will terminate on the tenth anniversary of the date on which it is approved by stockholders, except with respect to awards that are then outstanding.

No Repricing. The incentive plan explicitly prohibits our compensation committee from taking any action that has the effect of repricing a stock option or stock appreciation rights, unless our compensation committee is making adjustments pursuant to the incentive plan's standard anti-dilution provision.

Certain Federal Income Tax Consequences of Options. Certain of the federal income tax consequences to participants granted options under the incentive plan and our company relating to such options are set forth below in the following general summary.

A participant who is an employee and who is granted an ISO will not recognize income at the time of grant or exercise of such ISO. No federal income tax deduction will be allowable to our company upon the grant or exercise of such ISO. However, upon the exercise of an ISO, any excess in the fair market price of the shares of common stock over the exercise price constitutes a tax preference item that may have alternative minimum tax consequences for the participant. When the participant sells such shares more than one year after the date of transfer of such shares and more than two years after the date of grant of such ISO, the participant will normally recognize a long-term capital gain or loss equal to the difference, if any, between the sale prices of such shares and the exercise price, and our company will not be entitled to a federal income tax deduction with respect to such capital gain or loss. If the employee does not hold such shares for the required holding period, when the participant sells such shares, the employee will recognize ordinary compensation income and possibly capital gain or loss in such amounts as are prescribed by the Code and the regulations thereunder and the company will generally be entitled to a federal income tax deduction in the amount of such ordinary compensation income.

A participant who is granted a NSO will not recognize income at the time of grant of such stock option. When the participant exercises such NSO, the participant will recognize ordinary compensation income equal to the difference, if any, between the exercise price paid and the fair market value, as of the date of exercise, of the shares the participant receives. The tax basis of such shares to the participant will be equal to the exercise price paid plus the amount includible in the employee's gross income. If the participant disposes of any shares of common stock received upon the exercise of his or her NSO, the participant will recognize capital gain or loss equal to the difference between his or her tax basis in such shares and the amount of sale proceeds that the participant realizes on the disposition of such shares. The gain or loss will be either short term or long term, depending on the holding period, which will commence on the date on which the participant recognized taxable income in respect of such shares. Subject to the applicable provisions of the Code and the regulations thereunder (including Section 162(m)), when the participant exercises such NSO, our company will generally be entitled to a federal income tax deduction in respect of the NSO in an amount equal to the ordinary compensation income recognized by the participant.

2005 Non-Employee Directors Restricted Stock Plan

Upon completion of the offering, a new restricted stock plan for non-employee directors will go into effect, which we refer to in this prospectus as the directors' plan.

Eligibility. Only directors who are not employees of our company or any of our subsidiaries may participate in the directors' plan.

Administration. The directors' plan will be administered by our compensation committee or such other committee appointed by our board. Our compensation committee will have the authority to interpret and construe the provisions of the directors' plan and to make all administrative rules, procedures and determinations with respect to the directors' plan in accordance with the terms of such plan. Our compensation committee may designate one or more of our employees to carry out the day-to-day aspects of our compensation committee's responsibilities under the directors' plan.

Shares reserved for issuance. Subject to certain adjustments, the maximum number of shares of our common stock that may be issued for all purposes under the directors' plan will be an aggregate of 100,000 shares. Shares of our common stock issued under the directors' plan may be either treasury shares or authorized and unissued shares. The directors' plan contains a standard anti-dilution provision.

Awards. An award of restricted stock or restricted stock units may be made to a non-employee director under the directors' plan. Awards made under this plan are granted for no consideration other than the provision of services or for such other consideration as our compensation committee may determine or as may be required by applicable law.

Initial awards under the directors' plan are subject to the discretion of our compensation committee. For this reason, it is not possible to determine the benefits or amounts of the initial awards that will be received by non-employee directors under the director's plan. No awards will be granted under the directors' plan until after the completion of this offering. As of the date of this prospectus, we have seven non-employee directors.

Restricted Stock Awards. Subject to a deferral election, on the first day of the month following the later of the month in which (i) a non-employee director becomes a non-employee director and (ii) the date of completion of this offering, a non-employee director will receive a one-time award of restricted shares of our common stock equal to $60,000 (based on the fair market value of a share of our common stock on the date of grant) or such other amount as our compensation committee may determine from time to time.

Subject to a deferral election, as of the date of each annual meeting of our stockholders commencing in 2006, each non-employee director will automatically receive an award of restricted shares of our common stock equal to $30,000 (based on the fair market value of a share of common stock on the date of grant). Notwithstanding the foregoing sentence, if a non-employee director (i) will not continue to serve as a director on our board immediately after the relevant annual meeting or (ii) became a director on our board within 60 days or less of the relevant annual meeting, then such non-employee director will not receive any annual award of restricted stock for such year.

An award of restricted stock vests at a rate of 33 $^{1}/_{3}$% on each of the first, second and third anniversaries of the date of grant, subject to our compensation committee's authority to accelerate the vesting of the award upon a change in control (as defined in the incentive plan). Restricted stock will not be transferable until the later of the date on which it becomes vested (other than by the laws of descent and distribution) and six months following the date of grant. A non-employee director will have the right to vote and receive dividends upon receiving an award of restricted stock.

Deferral Election; Restricted Stock Unit Awards. Each non-employee director will be given the opportunity to make an irrevocable election to defer under our deferral plan (described in detail below) receipt of all or any portion of an award of restricted stock otherwise receivable by him or her. Any such election to defer must be made by the non-employee director within the time specified by our compensation committee no later than December 31st of the taxable year prior to the year in which the applicable award of restricted stock would otherwise be made to such director.

Where a non-employee director makes such a deferral election, he will receive a number of restricted stock units in lieu of, and equal to, the number of shares of restricted stock that is subject to the deferral election. Whereas a restricted stock award results in the immediate distribution of shares of our common stock, which remain subject to applicable vesting and transfer restrictions, a restricted stock unit award is a contractual right to receive shares of our common stock at a later date upon the satisfaction of certain vesting and settlement conditions.

The non-employee director will receive an award of these restricted stock units on the same date that the award of restricted stock subject to the deferral election would have been granted. An award of restricted stock units will vest at a rate of 33 $^{1}/_{3}$% on each of the first, second and third anniversaries of the date of grant, subject to our compensation committee's authority to accelerate the vesting of the award upon a change in control. Upon an award of restricted stock units, or portion thereof, becoming vested, no shares of common stock will be issued to the non-employee director. Instead, the restricted stock units will be credited to the non-employee director's account under our deferral plan on the applicable vesting date. Any restricted stock units credited to the deferral plan will be held as restricted stock units until such time as they are settled through the delivery of shares of common stock in accordance with the terms and conditions of our deferral plan. In addition, upon an award of restricted stock units, or portion thereof, becoming vested, the non-employee director will be entitled to have any dividend equivalents earned as of the applicable vesting date that correspond to such restricted stock units distributed in whole shares of our common stock.

Restricted stock units will not be transferable (other than by the laws of descent and distribution). A non-employee director will have no rights as a stockholder in our company with respect to restricted stock units held by him until shares of our common stock underlying such units are distributed.

Termination of Service. In the event that a non-employee director's service on our board terminates, our compensation committee has the authority to accelerate the vesting of an award, which action may be taken at the time of grant or at a subsequent time. In the absence of any action by our compensation committee to the contrary, upon such termination of service, such non-employee director's award will, to the extent unvested, be immediately forfeited as of such date of termination.

Amendment and Termination. Our board may, at any time, terminate, amend, modify or suspend the directors' plan, except that no amendment may be made (i) where required by applicable law or exchange rules, unless stockholder approval is obtained, or (ii) that adversely alters or affects the rights of a non-employee director with respect to any award outstanding without such director's consent. Unless terminated earlier, the directors' plan will terminate on the tenth anniversary of the date on which it is approved by stockholders, except with respect to awards that are then outstanding.

2005 Deferred Compensation Plan

Upon completion of the offering, a new deferred compensation plan will go into effect, which we refer to in this prospectus as the deferral plan. The deferral plan is intended to be an unfunded plan.

Administration. Our compensation committee (or its designee) will administer the plan. All determinations, interpretations and action taken by our compensation committee with respect to the deferral plan will be final and binding on all persons. No member of our compensation committee will be liable to any person for any action taken or omitted in good faith in connection with the administration or interpretation of the deferral plan. We will indemnify and hold any of our employees or directors, including any member of our compensation committee, harmless against all expenses and liabilities arising out of any action taken or omitted in good faith in administering the deferral plan.

General Terms. A select group of management and highly compensated employees whose annualized base salary for the preceding calendar year is not less than dollar amount specified by our compensation committee (such limit will initially be $170,000) may participate in the deferral plan. An employee who satisfies this eligibility criteria may elect to defer on an annual basis up to a maximum of 10% of the total cash compensation due to him or her from our company or our subsidiaries (before deductions to any savings plans). The types of compensation subject to and excluded from the deferral election are illustrated in the deferral plan.

The deferral plan permits our non-employee directors to defer the total cash payments due to them in connection with their service on our board or any committee of our board, including annual retainer fees and committee fees. Non-employee directors are also permitted to defer all or a portion of the restricted stock receivable by them under the directors' plan (described above) in the form of restricted stock units. Our compensation committee has the discretion to exclude an otherwise eligible employee or non-employee director from participating in the deferral plan if such exclusion is in the best interests of our company or necessary or advisable to comply with the requirements of applicable law.

Participants who make deferral elections under the deferral plan will elect the deferral period and manner of payment for deferred amounts. Deferral elections made under the deferral plan will be irrevocable, unless our compensation committee determines otherwise. The deferral period may generally not be less than three years. Participants will be fully vested in amounts deferred by them under the deferral plan.

Participants may invest cash amounts deferred by them under the deferral plan among various notional investment alternatives designated by our compensation committee. Cash amounts deferred under the deferral plan will be credited (or debited) periodically to reflect the return, if any, on such notional investments.

Restricted stock unit amounts deferred under the deferral plan by a non-employee director will remain in the form of restricted stock units until such units are settled in shares of our common stock at the end of the applicable deferral period. A non-employee director participant who has deferred restricted stock units under the deferral plan will earn dividend equivalents with respect to the shares of our common stock underlying such units. The dividend equivalents will be credited to the non-employee director participant's account under the deferral plan and distributed in whole shares of our common stock at the same time a distribution of shares is made with respect to the corresponding restricted stock units.

Within a reasonable period following the end of the applicable deferral period, the participant (pursuant to his or her payment election) will receive cash amounts deferred (and any related credits earned) under the deferral plan in the form of cash in (i) a single lump-sum payment, (ii) up to 10 annual installments over 10 years or (iii) up to 120 monthly installments over 10 years, unless the committee determines otherwise. Within a reasonable period following the end of the applicable deferral period, non-employee director participants who have elected to defer restricted stock units under the deferral plan will have such units (and any related dividend equivalents earned) distributed in the form of whole shares of our common stock.

Our compensation committee will at all times have the right to accelerate the distribution of any amounts deferred by a participant under the deferral plan to the extent permitted by Section 409A of the Code.

Termination of Employment or Service and Change in Control. In the event of an employee participant's separation from service for any reason other than retirement or a non-employee director participant's service on our board is terminated, all amounts deferred by such participant (including credits and dividend equivalents earned) in the deferral plan will be distributed as soon as practicable following the date of his or her termination, unless our compensation committee determines otherwise. At least 30 days prior to a change in control (as defined in the incentive plan), or on such date specified by our compensation committee that is less than 30 days prior to the date of the change in control, all amounts deferred by participants (including credits and dividend equivalents earned) under the deferral plan will be distributed to such participants.

Amendment and Termination. Our compensation committee may, at any time, terminate, amend, or modify the deferral plan, except that no amendment or termination may adversely affect the rights of a participant in any deferral account that has been established prior to such amendment or termination without such participant's consent. Notwithstanding the foregoing sentence, our compensation committee may make any amendment or modification necessary or proper to conform with any law or governmental regulation, to avoid being subject to interest and penalties under Section 409A of the Code or to prevent any tax assessment against amounts deferred under the plan prior to the distribution of such amounts.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Consulting Agreements

We entered into a Management Services Agreement with Stonington dated January 23, 2003 pursuant to which Stonington provides us and our board of directors with management consulting and business advisory services upon our request. Stonington is our largest stockholder and officers of Stonington serve on our board of directors. We pay Stonington an annual fee of $750,000 and provide reimbursement for reasonable expenses. The agreement will terminate upon the completion of this offering.

We had a consulting agreement with Hart Capital to advise us in identifying acquisition and merger targets and to assist with the due diligence reviews and negotiations with these targets. This agreement terminated by its terms in June 2004. Hart Capital is the managing member of Five Mile River Capital Partners LLC, which is our second largest stockholder and Steven Hart, who is the President of Hart Capital, sits on our board of directors. We paid Hart Capital a monthly retainer, reimbursement of expenses and an advisory fee for its work on successful acquisitions or mergers. In accordance with the agreement, we paid Hart Capital approximately $0.7 million, $0.6 million and $0.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. Pursuant to the agreement, we may have future obligations to make certain payments to Hart Capital with respect to acquisition opportunities identified for us by Hart Capital prior to the termination of the agreement if we consummate any such acquisition opportunities within the twelve months following the termination of the agreement. We paid Hart Capital $0.3 million for its services in connection with the NETI acquisition, which closed on January 11, 2005.

Stockholders' Agreement

On September 15, 1999, we entered into a Stockholders' Agreement with affiliates of Stonington and Hart Capital. Under this agreement, as amended, Stonington agreed that so long as Hart Capital and Steven Hart owned at least 5% of the outstanding shares of our common stock, Stonington would vote all of the shares of our common stock that it owns in favor of Steven Hart or his designee in elections of members of our board of directors. Hart Capital also agreed to vote all of the shares of our common stock that it owns in favor of Stonington's designees in elections of members of our board of directors, as well as in the same manner as Stonington in other matters requiring stockholder approval. The Stockholders' Agreement grants Stonington a right of first refusal in the sale of any shares of common stock by Hart Capital, Steven Hart and their transferees so long as Stonington and/or its affiliates own at least 20% of the then outstanding common stock.

The Stockholders' Agreement also sets forth certain "tag along" and "drag along" rights relating to sales of our common stock. The "tag along" rights require Stonington to offer to include certain of the shares of our common stock held by Hart Capital, Steven Hart and their transferees in a sale by Stonington of 45% or more of the outstanding shares of our common stock. The "drag along" rights obligate Hart Capital, Steven Hart and their transferees to participate pro rata in certain sales of our common stock by Stonington. We also granted Hart Capital, Steven Hart and their transferees the right, under certain circumstances, to have shares of our common stock owned by them included in a registration statement that we file for the public offering of our common stock. Hart Capital and Steven Hart have exercised this right to sell shares of our common stock in this offering.

Management Stockholders Agreement

On January 1, 2002, we entered into a Management Stockholders Agreement with an affiliate of Stonington and a number of our management employees who own shares of our common stock or stock options. The agreement significantly restricts the ability of these management stockholders to transfer their shares before we become a public company. The agreement also sets forth certain "tag along" and "drag along" rights relating to sales of our common stock. The agreement gives the management stockholders and the Company corresponding "put" and "call" rights for the management stockholders' shares in the event of a management stockholder's death, disability, retirement or involuntary termination prior to a public offering of our stock. We also granted the management stockholders the right, under certain circumstances, to have shares of our common stock owned by them included in a registration statement that we file for the public offering of our common stock. Certain of the management stockholders have exercised this right to sell shares of our common stock in this offering.

Registration Rights Agreement

Prior to the completion of this offering, we anticipate entering into a registration rights agreement with our principal stockholder, Stonington. Pursuant to the registration rights agreement, Stonington shall have five "demand" registration rights. Pursuant to these demand rights, at any time following the closing of this offering, Stonington may request, subject to the lock-up agreements described under "Underwriting," that we, at our expense, file a registration statement under the Securities Act of 1933 to cover the restricted shares of our common stock that they own, as long as the aggregate offering price of the proposed transaction to be registered is greater than $25 million or represents an offering of at least 10% of our outstanding common stock. Upon receipt of such request, we generally will be required to use our reasonable best efforts to effect such registration. We will not be required to effect a requested registration, however, if we have effected one such registration which is still in effect, or if the request is made at any time up to 180 days following the effective date of any registered offering we have made to the general public, other than this offering, in which Stonington shall have been able to effectively register all the restricted stock as to which registration has been requested. We may also delay filing a registration statement or withhold efforts to cause a registration statement to become effective if our board of directors determines in good faith that such registration will materially and adversely interfere with or affect the negotiation or completion of any material transaction we are considering or will involve initial or continuing disclosure obligations that are not in our stockholders' best interests.

The registration rights agreement also provides for "piggyback" rights with respect to the restricted shares of our common stock held by Stonington. Accordingly, if we propose to register, or decide to register following the exercise of a "demand" registration right as described above, any of our common stock for sale to the public following completion of this offering, we are required to give written notice of our intention to do so to Stonington and to use our reasonable best efforts to include in the registration statement the number of restricted shares of our common stock beneficially owned and requested to be registered by Stonington. If Stonington were to include shares in a registration statement where we also include shares, this would not count as a "demand" under this agreement even if Stonington requested the registration statement pursuant to its rights under this agreement before we decided to include any shares in or effectuate any registration statement. To the extent Stonington includes shares of our common stock in any registration statement, such inclusion would trigger incidental registration rights under the Stockholders' Agreement (including incidental registration rights of our second largest stockholder, Hart Capital) and the Management Stockholders Agreement, subject to reduction of such shares under certain circumstances by an underwriter. If a reduction of shares is necessary, stockholders who request to participate in the registration pursuant to this proposed new registration rights agreement or the Stockholders' Agreement or Management Stockholders Agreement will do so pro rata based on the numbers of shares held by such stockholders on a fully-diluted basis, except that we will have first priority to register shares of our common stock if we initiate the registration for our own account.

Management Loans

On January 1, 2002, David F. Carney, our Chief Executive Officer and Chairman of the Board of Directors, Lawrence E. Brown, our President and Chief Operating Officer and Scott M. Shaw, our Senior Vice President, Strategic Planning and Development issued personal recourse secured promissory notes to us in the amount of $0.2 million, $0.1 million and $0.1 million, respectively. The notes were issued in connection with a loan to the executives named above in order to purchase shares of our common stock. The loans bore interest at a rate of 5.6% per year, payable annually. Mr. Carney paid all amounts outstanding under his promissory note in the first quarter of 2004. Messrs. Brown and Shaw paid all amounts outstanding under their promissory notes on March 24, 2005.

Initial Public Offering

We are paying the expenses of this offering, including those of the selling stockholders, other than underwriting discounts and commissions. See "Underwriting."

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of February 28, 2005, as adjusted to reflect the sale of shares in the offering by:

- each person known to us to beneficially own more than 5% of the outstanding shares of common stock;
- each of the executive officers identified in the summary compensation table;
- each of our directors;
- all directors and executive officers as a group; and
- each selling stockholder.

Footnote (1) on the following page provides a brief explanation of what is meant by the term "beneficial ownership." For the purpose of calculating the percentage of shares beneficially owned by any stockholder, the number of shares of common stock deemed outstanding "prior to offering" includes shares of common stock subject to options held by beneficial owners that are currently exercisable or exercisable within 60 days of February 28, 2005. This table assumes the overallotment option granted to the underwriters is not exercised.

For purposes of the calculation of beneficial ownership percentages, shares of common stock subject to options and warrants are considered outstanding and beneficially owned by the person holding the options or warrants but are not treated as outstanding for purposes of computing the percentage ownership of any person. As of February 28, 2005, there were 21,698,785 shares of common stock outstanding. Immediately following this offering shares of common stock will be outstanding.

The number of shares of common stock outstanding "After Offering" includes the additional shares of common stock offered by us in the offering. Except as indicated in the footnotes to this table and subject to applicable community property laws, the persons named in this table have the sole voting power with respect to all shares of common stock listed as beneficially owned by them.

Name of Beneficial Owner(1)	Before Offering: Number of Shares of Common Stock Beneficially Owned	Before Offering: Percent of Common Stock Beneficially Owned	Number of Shares Offered in this Offering	After Offering: Number of Shares of Common Stock Beneficially Owned	After Offering: Percent of Common Stock Beneficially Owned
Selling Stockholders:					
Back to School Acquisition, L.L.C.(2)	18,165,500	78.7%			
Hart Capital LLC(3)	3,132,100	13.6%			
Directors and Executive Officers:					
David F. Carney(4)(5)	449,855	2.0%			
Lawrence E. Brown(4)(6)	271,937	1.2%			
Scott M. Shaw(4)(7)	265,863	1.2%			
Cesar Ribeiro(4)(8)	4,000	*			
Alexandra M. Luster(4)(9)	16,125	*			
Thomas McHugh(4)(10)	18,500	*			
Stephen M. Buchenot(4)(11)	25,939	*			
Deborah Ramentol(4)(12)	25,939	*			
Edward B. Abrams(4)(13)	25,939	*			
Ronald L. Beall(4)(14)	12,150	*			
Anthony Stanziani(4)(15)	1,400	*			
Alexis P. Michas(16)	—	—			
James J. Burke, Jr.(17)	—	—			
Steven W. Hart(18)	161,500	0.7%			
Jerry G. Rubenstein(19)	34,526	*			
John Petillo(20)	—	—			
Paul Glaske(21)	—	—			
Peter Burgess(22)	—	—			
All executive officers and directors as a group (18 persons)	1,313,673	5.7%			

* Less than 0.5%.

(1) "Beneficial ownership" is a term broadly defined by the SEC in Rule 13d-3 under the Exchange Act, and includes more than the typical forms of stock ownership, that is, stock held in the person's name. The term also includes what is referred to as "indirect ownership," meaning ownership of shares as to which a person has or shares investment or voting power. For purpose of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares as of a given date that such person or group has the right to acquire within 60 days after such date.

(2) Stonington Partners, Inc. II controls Back to School Acquisition, L.L.C. Stonington is a private equity investment firm that manages a fund of institutional capital on behalf of public and corporate pension funds, private endowments and other financial institutions. Alexis P. Michas is the Managing Partner of Stonington and James J. Burke, Jr. is a Partner of Stonington. Both are members of our board of directors. Both Back to School Acquisition, L.L.C. and Stonington have their business address at 767 Fifth Avenue, New York, New York 10153.

(3) These shares are owned by Five Mile River Capital Partners LLC, of which Hart Capital LLC is the managing member. Steven Hart, a member of our board of directors, is the President of Hart Capital LLC. Both Five Mile River Capital Partners LLC and Hart Capital LLC have their business address at 131 Rowayton Avenue, Rowayton, Connecticut 06853.

(4) Unless otherwise noted, the business address for each of the executive officers is 200 Executive Drive, Suite 340, West Orange, New Jersey 07052.

(5) Includes 115,288 shares of common stock currently held of record and options to purchase 334,567 shares of common stock.

(6) Includes 65,626 shares of common stock currently held of record and options to purchase 206,311 shares of common stock.

(7) Includes 65,626 shares of common stock currently held of record and options to purchase 200,237 shares of common stock.

(8) Includes options to purchase 4,000 shares of common stock.

(9) Includes options to purchase 16,125 shares of common stock.

(10) Includes options to purchase 18,500 shares of common stock.

(11) Includes options to purchase 25,939 shares of common stock.

(12) Includes options to purchase 25,939 shares of common stock.

(13) Includes options to purchase 25,939 shares of common stock.

(14) Includes options to purchase 12,150 shares of common stock.

(15) Includes options to purchase 1,400 shares of common stock.

(16) Alexis P. Michas serves on our board of directors and is the Managing Partner of Stonington, our largest stockholder, which owns, through its controlled subsidiary Back to School Acquisition, L.L.C., 78.7% of our common stock. Mr. Michas disclaims beneficial ownership of these shares of common stock. Mr. Michas' business address is 767 Fifth Avenue, New York, New York 10153.

(17) James J. Burke, Jr. serves on our board of directors and is a Partner of Stonington, our largest stockholder, which owns, through its controlled subsidiary Back to School Acquisition, L.L.C., 78.7% of our common stock. Mr. Burke disclaims beneficial ownership of these shares of common stock. Mr. Burke's business address is 767 Fifth Avenue, New York, New York 10153.

(18) Mr. Hart serves on our board of directors and is the owner and President of Hart Capital LLC, the Managing Member of Five Mile River Capital Partners LLC, our second largest stockholder, which owns 13.6% of our common stock as described in (3) above. Mr. Hart beneficially owns 161,500 shares of our common stock, which includes options held by trusts for the benefit of Mr. Hart's children. This amount excludes shares of common stock held by Five Mile River Capital Partners LLC of which Mr. Hart may be deemed to be the beneficial owner by virtue of his ownership of stock in, and/or membership on the board of directors of, Hart Capital LLC. Mr. Hart disclaims beneficial ownership of these shares of common stock. Mr. Hart's business address is 131 Rowayton Avenue, Rowayton, Connecticut 06853.

(19) Jerry Rubenstein serves on our board of directors and is the beneficial owner of 34,256 shares of our common stock. Includes options to purchase 26,456 shares of common stock. Mr. Rubenstein's business address is Omni Management Associates, Two Bala Plaza, Suite 300, Bala Cynwyd, Pennsylvania 19004.

(20) John Petillo serves on our board of directors. Dr. Petillo's business address is 65 Bergen Street, Room 1535, University Heights, Newark, New Jersey 07101.

(21) Paul Glaske serves on our board of directors. Mr. Glaske's business address is 18136 South Shore Drive, Flint, Texas 75762.

(22) Peter Burgess serves on our board of directors. Mr. Burgess' business address is 88 Sherwood Drive, Glastonbury, Connecticut 06033.

DESCRIPTION OF CAPITAL STOCK

General

The following is a description of the material terms of our capital stock we expect to be included in our amended and restated certificate of incorporation and amended and restated bylaws and is only a summary. You should refer to our amended and restated certificate of incorporation and amended and restated bylaws as in effect upon the closing of this offering, which are included as exhibits to the registration statement of which this prospectus is a part.

We are currently authorized to issue 50,000,000 shares of common stock, with no par value per share. As of the consummation of this offering, our authorized capital stock is expected to consist of shares of common stock, with no par value and shares of preferred stock.

Common Stock

As of December 31, 2004, there were 21,698,785 shares of common stock outstanding, which were held of record by fourteen stockholders.

Voting rights. The holders of our common stock will be entitled to one vote per share for each share held of record on any matter to be voted upon by stockholders. Our amended and restated certificate of incorporation will not provide for cumulative voting in connection with the election of directors and, accordingly, holders of more than 50% of the shares voting will be able to elect all of the directors standing for election.

Dividend rights. All shares of our common stock will be entitled to share equally in any dividends our board of directors may declare from legally available sources. Our new credit agreement currently imposes restrictions on our ability to declare dividends with respect to our common stock.

Liquidation rights. Upon liquidation or dissolution of our company, whether voluntary or involuntary, all shares of our common stock will be entitled to share equally in the assets available for distribution to stockholders after payment of all of our prior obligations, including obligations on our preferred stock.

Other matters. The holders of our common stock have no preemptive or conversion rights and our common stock is not subject to further calls or assessments by us. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of common stock are subject to the rights of holders of shares of any series or preferred stock that may be issued in the future. All outstanding shares of our common stock, including the common stock offered in this offering, are fully paid and non-assessable.

Preferred Stock

We expect our amended and restated certificate of incorporation to provide for the authorization of shares of preferred stock. The shares of preferred stock may be issued from time to time at the discretion of the board of directors without stockholder approval. The board of directors will be authorized to issue these shares in different classes and series and, with respect to each class or series, to determine the dividend rate, the redemption provisions, conversion provisions, liquidation preference and other rights and privileges not in conflict with our amended and restated certificate of incorporation. The issuance of preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control in Lincoln Educational Services Corporation. No shares of our preferred stock will be outstanding immediately following completion of this offering, and we have no immediate plans to issue any preferred stock. The issuance of any of our preferred stock could provide needed flexibility in connection with possible acquisitions and other corporate purposes, however, the issuance could also make it more difficult for a third party to acquire a majority of our outstanding voting stock or discourage an attempt to gain control of us. In addition, the board of directors, without stockholder approval, will be able to issue shares of preferred stock with voting and conversion rights that could adversely affect the voting power and other rights of the holders of common stock. The rules of The Nasdaq National Market, which will apply so long as our common stock is listed on The Nasdaq National Market, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power of the then outstanding number of shares of common stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

Directors' Exculpation and Indemnification

We expect that our amended and restated certificate of incorporation will provide that none of our directors shall be liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director, except to the extent otherwise required by the New Jersey Business Corporation Act, or the NJBCA. The effect of this provision is to eliminate our rights, and our stockholders' rights, to recover monetary damages against a director for breach of a fiduciary duty of care as a director, except to the extent otherwise required by the NJBCA. This provision does not limit or eliminate our right, or the right of any stockholder, to seek non-monetary relief, such as an injunction or rescission in the event of a breach of a director's duty of care. In addition, our amended and restated certificate of incorporation provides that, if the NJBCA is amended to authorize the further elimination or limitation of the liability of a director, then the liability of the directors shall be eliminated or limited to the fullest extent permitted by the NJBCA, as so amended. These provisions will not alter the liability of directors under federal or state securities laws.

Anti-Takeover Effects of the New Jersey Shareholders Protection Act

We are subject to the provisions of Section 14A-10A of the New Jersey Business Corporation Act, which is known as the "New Jersey Shareholders Protection Act." Under the New Jersey Shareholders Protection Act, we are prohibited from engaging in any "business combination" with any "interested shareholder" for a period of five years following the time at which that shareholder becomes an "interested shareholder" unless the business combination is approved by our board of directors before that shareholder became an "interested shareholder." After this five-year period has expired, any business combination with an "interested shareholder" must be approved by holders of $66^{2}/_{3}$% of the voting shares not held by the "interested shareholder" or meet certain prescribed value requirements. Covered business combinations include certain mergers, dispositions of assets or shares and recapitalizations.

An "interested shareholder" is (i) any person that directly or indirectly beneficially owns 10% or more of the voting power of our outstanding voting stock; or (ii) any of our affiliates or associates (as those terms are defined in the New Jersey Shareholders Protection Act) that directly or indirectly beneficially owned 10% or more of the voting power of our then-outstanding stock at any time within a five-year period immediately prior to the date in question.

Certain Provisions of Our Amended Certificate of Incorporation and Bylaws

Board of Directors. Our board of directors will consist of eight directors, four of whom will be independent directors. Any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by the affirmative vote of a majority of the directors then in office, though less than a quorum. Any such director so elected shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until his or her successor shall have been elected and qualified. The limitation on filling vacancies could make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of our company.

Board meetings. Our amended and restated bylaws will provide that special meetings of the board of directors may be called by the chairman of our board of directors, our chief executive officer or by any two directors in office.

Stockholder meetings. Our amended and restated certificate of incorporation will provide that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by non-unanimous written action in lieu of a meeting. Our bylaws will further provide that special meetings of the stockholders may only be called by our president, by a committee that is duly designated by the board of directors, by resolution adopted by the affirmative vote of the majority of the board of directors or pursuant to an order of the New Jersey Superior Court in accordance with NJBCA.

Requirements for advance notification of stockholder nominations and proposals. Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of the board of directors. In order for any matter to be considered "properly brought" before a meeting, a stockholder must comply with requirements regarding advance notice and provide certain information to us. These provisions could have the effect of delaying until the next stockholders meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities. These provisions could also discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting securities, it would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting and not by written consent.

Stockholder action by written consent. Our amended and restated certificate of incorporation and amended and restated bylaws will prohibit stockholder action by non-unanimous written consent and require all such actions to be taken at a meeting of stockholders of our common stock.

Cumulative voting. Our amended and restated certificate of incorporation will provide that our stockholders shall have no cumulative voting rights.

Amendment of certificate of incorporation and bylaws. The amendment of the provisions described above in our amended and restated certificate of incorporation generally will require the affirmative vote of a majority of our directors, as well as the affirmative vote of the holders of at least $66^2/_3$% of our then-outstanding voting stock. Our amended and restated bylaws may be amended (i) by the affirmative vote of the majority of our board of directors, (ii) by the affirmative vote of holders of a majority of our then-outstanding voting stock, or (iii) without regard to the right of stockholders to otherwise amend the amended and restated bylaws as set forth in (ii) above, in the case of certain provisions concerning our board of directors, by the affirmative vote of at least 75% of the holders of our then outstanding stock.

Nasdaq National Market Trading

We intend to apply to have our common stock approved for quotation on The Nasdaq National Market under the symbol "LINC."

Transfer Agent and Registrar

We intend to appoint a transfer agent and registrar for our common stock prior to the consummation of this offering.

DESCRIPTION OF CREDIT AGREEMENT

We and our subsidiaries are parties to a new credit agreement with Harris Trust and Savings Bank, as administrative agent, and a syndicate of banks that currently allows for revolving credit borrowings of up to $100 million. The new credit agreement permits the issuance of letters of credit up to an aggregate amount of $20.0 million, the amount of which reduces the availability of permitted borrowings under the new credit agreement. The new credit agreement expires on February 15, 2010 and bears interest at the rate of adjusted LIBOR plus a margin which ranges from 1.0% to 1.75% or a base rate (as defined in the new credit agreement) plus a margin which ranges from 0.0% to 0.25%. In addition to paying interest on the outstanding principal under the new credit agreement, we are required to pay a commitment fee with respect to the unused amounts available under the new credit agreement at a rate that ranges from 0.25% to 0.40% per year. As of February 28, 2005 there were borrowings of approximately $30.0 million outstanding and $4.1 million of letters of credit outstanding under the new credit agreement.

Our and our subsidiaries' obligations under the new credit agreement are secured by a first priority lien upon substantially all of the assets that we and our subsidiaries own and any assets that we and our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock.

The new credit agreement contains a number of financial and other covenants that, among other things, restrict our and our subsidiaries' abilities to incur additional indebtedness, grant liens or other security interests, make certain investments, become liable for contingent liabilities, make specified restricted payments including dividends, dispose of assets or stock, including the stock of its subsidiaries, or make capital expenditures above specified limits. The capital expenditure covenant limits permitted capital expenditure payments to $35 million for each fiscal quarter in 2005. Furthermore, none of our institutions can have a cohort default rate greater than 20% at any time. We must also maintain a minimum net worth (as defined in the new credit agreement), maximum fixed coverage charge ratios and maximum debt leverage ratios and cohort default. As of February 28, 2005, we and our subsidiaries were in compliance with these covenants. Some of these covenants remain constant and some vary over time as follows:

- The ratio of our and our subsidiaries' total funded debt (as defined in the new credit agreement) to adjusted EBITDA (as defined in the new credit agreement) may not exceed 2.5:1 until December 31, 2005, 2.25:1 from January 1, 2006 until December 31, 2006 and 2.00:1 thereafter.

- The ratio of our adjusted EBITDAR (as defined in the new credit agreement) for the last four fiscal quarters then ended, less our and our subsidiaries' capital expenditures (as defined in the new credit agreement), less taxes paid by us and our subsidiaries must be greater than a ranging ratio of between 1.00:1 and 1.35:1 until September 30, 2007 and 1.50:1 thereafter.

- We shall at all times maintain net worth of at least $43.5 million plus 50% of our net income (as defined in the new credit agreement) (but without deducting for losses) for each fiscal quarter.

The new credit agreement contains customary events of default as well as an event of default in the event of the suspension or termination of Title IV Program funding for our and our subsidiaries' schools aggregating 10% or more of our EBITDA or our and our subsidiaries' consolidated total assets and such suspension or termination is not cured within a specified period.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has not been a public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the possibility of these sales, could adversely affect the trading price of our common stock and could impair our future ability to raise capital through the sale of our equity at a time and price we deem appropriate.

Upon completion of this offering, assuming the underwriters' overallotment option is not exercised, we will have outstanding shares of common stock. Of these shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below.

Assuming the underwriters' overallotment option is not exercised, the remaining shares of common stock that will be held by affiliates will be "restricted securities," as defined in Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 and 144(k) promulgated under the Securities Act, which rules are summarized below. Upon expiration of the lock-up agreements described in "Underwriting," 180 days after the date of this prospectus, all of these shares will be eligible for sale in the public market pursuant to Rule 144 or Rule 144(k).

Subject to the lock-up agreements described in "Underwriting" and the provisions of Rules 144 and 144(k), additional shares will be available for sale in the public market as follows:

Number of Shares	Date
	After the date of this prospectus.
	After 180 days from the date of this prospectus.

All of these restricted securities will be eligible for sale in the public market, subject in some cases to the volume limitations and other restrictions of Rule 144, beginning upon expiration of the lock-up agreements described in "Underwriting."

Stock Options

The numbers of shares of common stock listed above do not include shares of common stock issuable upon exercise of stock options granted under our stock plans that were unexercised as of December 31, 2004. Upon completion of the offering, we intend to file a registration statement on Form S-8 with the SEC to register shares of our common stock reserved for issuance or sale under our incentive stock plan. As of December 31, 2004, there were outstanding options to purchase a total of 2,022,495 shares of common stock, 974,862 of which were vested. Shares of common stock issuable upon the exercise of options granted or to be granted under our stock option plan will be freely tradable without restriction under the Securities Act, unless such shares are held by an affiliate of ours.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including an affiliate, who has beneficially owned shares of our common stock for at least one year is entitled to sell in any three-month period a number of shares that does not exceed the greater of

- 1% of then outstanding shares of common stock, or shares; and
- the average weekly trading volume in the common stock on The Nasdaq National Market during the four calendar weeks preceding the date on which a notice of sale is filed, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

In addition, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, would be entitled to sell those shares under Rule 144(k) without regard to the manner of sale, public information, volume limitation or notice requirements of Rule 144. To the extent that our affiliates sell their shares, other than pursuant to Rule 144 or a registration statement, the purchaser's holding period for the purpose of effecting a sale under Rule 144 commences on the date of transfer from the affiliate.

MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS

The following discussion is a general summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock applicable to "Non-U.S. Holders." As used herein, a Non-U.S. Holder means a beneficial owner of our common stock that is *not* a U.S. person or a partnership for U.S. federal income tax purposes, and that will hold shares of our common stock as capital assets (*i.e.*, generally, for investment). For U.S. federal income tax purposes, a U.S. person includes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other business entity treated as a corporation) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income regardless of source; or
- a trust that (A) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons, or (B) otherwise has elected to be treated as a U.S. domestic trust.

If a partnership holds shares of our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership.

This summary does not consider specific facts and circumstances that may be relevant to a particular Non-U.S. Holder's tax position and does not consider U.S. state and local or non-U.S. tax consequences. It also does not consider Non-U.S. Holders subject to special tax treatment under the U.S. federal income tax laws (including partnerships or other pass-through entities, banks and insurance companies, dealers in securities, holders of our common stock held as part of a "straddle," "hedge," "conversion transaction" or other risk-reduction transaction, controlled foreign corporations, passive foreign investment companies, companies that accumulate earnings to avoid U.S. federal income tax, foreign tax-exempt organizations, former U.S. citizens or residents and persons who hold or receive common stock as compensation). This summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service ("IRS") and judicial decisions, all as in effect on the date hereof, and all of which are subject to change, possibly on a retroactive basis, and different interpretations.

This summary is included herein as general information only. Accordingly, each prospective Non-U.S. Holder is urged to consult its tax advisor with respect to the U.S. federal, state, local and non-U.S. income, estate and other tax consequences of holding and disposing of our common stock.

U.S. Trade or Business Income

For purposes of this discussion, dividend income, and gain on the sale or other taxable disposition of our common stock, will be considered to be "U.S. trade or business income" if such dividend income or gain is (i) effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States and (ii) in the case of a Non-U.S. Holder that is eligible for the benefits of an income tax treaty with the United States, attributable to a permanent establishment (or, for an individual, a fixed base) maintained by the Non-U.S. Holder in the United States. Generally, U.S. trade or business income is not subject to U.S. federal withholding tax (provided the Non-U.S. Holder complies with applicable certification and disclosure requirements); instead, U.S. trade or business income is subject to U.S. federal income tax on a net income basis at regular U.S. federal income tax rates in the same manner as a U.S. person. Any U.S. trade or business income received by a Non-U.S. Holder that is a corporation also may be subject to a "branch profits tax" at a 30% rate, or at a lower rate prescribed by an applicable income tax treaty, under specific circumstances.

Dividends

Distributions of cash or property that we pay on our common stock will be taxable as dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). A Non-U.S. Holder generally will be subject to U.S. federal withholding tax at a 30% rate, or at a reduced rate prescribed by an applicable income tax treaty, on any dividends received in respect of our common stock. If the amount of a distribution exceeds our current and accumulated earnings and profits, such excess first will be treated as a tax-free return of capital to the extent of the Non-U.S. Holder's tax basis in our common stock, and thereafter will be treated as capital gain. In order to obtain a reduced rate of U.S. federal withholding tax under an applicable income tax treaty, a Non-U.S. Holder will be required to provide a properly executed IRS Form W-8BEN (or appropriate substitute or successor form) certifying its entitlement to benefits under the treaty. A Non-U.S. Holder of our common stock that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS. A Non-U.S. Holder should consult its own tax advisor regarding its possible entitlement to benefits under an income tax treaty.

The U.S. federal withholding tax does not apply to dividends that are U.S. trade or business income, as described above, of a Non-U.S. Holder who provides a properly executed IRS Form W-8ECI (or appropriate substitute or successor form), certifying that the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States.

Dispositions of our Common Stock

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of any gain on a sale or other disposition of our common stock unless:

(1) the gain is U.S. trade or business income, as described above;

(2) the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of the disposition and meets other conditions; or

(3) we are or have been a "U.S. real property holding corporation" (a "USRPHC") under section 897 of the Code at any time during the shorter of the five-year period ending on the date of disposition and the Non-U.S. Holder's holding period for our common stock.

In general, a corporation is a USRPHC if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide (domestic and foreign) real property interests and its other assets used or held for use in a trade or business. For this purpose, real property interests include land, improvements, and associated personal property. We have not made a determination as to whether or not we are or have been a USRPHC. If we are found to be a USRPHC, a Non-U.S. Holder, nevertheless, will not be subject to U.S. federal income or withholding tax in respect of any gain on a sale or other disposition of our common stock so long as our common stock is "regularly traded on an established securities market" as defined under applicable Treasury regulations and a Non-U.S. Holder owns, actually and constructively, 5% or less of our common stock during the shorter of the five-year period ending on the date of disposition and such Non-U.S. Holder's holding period for our common stock. Prospective investors should be aware that no assurance can be given that our common stock will be so regularly traded when a Non-U.S. Holder sells its shares of our common stock.

U.S. Federal Estate Taxes

Shares of our common stock owned or treated as owned by an individual who is a Non-U.S. Holder at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding Requirements

We must annually report to the IRS and to each Non-U.S. Holder any dividend income that is subject to U.S. federal withholding tax, or that is exempt from such withholding tax pursuant to an income tax treaty. Copies of these information returns also may be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides. Under certain circumstances, the Code imposes a backup withholding obligation (currently at a rate of 28%) on certain reportable payments. Dividends paid to a Non-U.S. Holder of our common stock generally will be exempt from backup withholding if the Non-U.S. Holder provides a properly executed IRS Form W-8BEN (or appropriate substitute or successor form) or otherwise establishes an exemption.

The payment of the proceeds from the disposition of common stock to or through the U.S. office of any broker, U.S. or foreign, will be subject to information reporting and possible backup withholding unless the owner certifies as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption, *provided* that the broker does not have actual knowledge or reason to know that the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The payment of the proceeds from the disposition of common stock to or through a non-U.S. office of a non-U.S. broker will not be subject to information reporting or backup withholding unless the non-U.S. broker has certain types of relationships with the United States (a "U.S. related person"). In the case of the payment of the proceeds from the disposition of our common stock to or through a non-U.S. office of a broker that is either a U.S. person or a U.S. related person, the Treasury regulations require information reporting (but not the backup withholding) on the payment unless the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no knowledge to the contrary. Non-U.S. Holders should consult their own tax advisors on the application of information reporting and backup withholding to them in their particular circumstances (including upon their disposition of our common stock).

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, if the Non-U.S. Holder provides the required information to the IRS.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Lehman Brothers Inc., Harris Nesbitt Corp., Jefferies & Company, Inc. and Robert W. Baird & Co. Incorporated are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a purchase agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us and the selling stockholders, the number of shares of common stock set forth opposite its name below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Banc of America Securities LLC	
Lehman Brothers Inc.	
Harris Nesbitt Corp.	
Jefferies & Company, Inc.	
Robert W. Baird & Co. Incorporated	
Total	

Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us and the selling stockholders that they propose initially to offer the shares to the public at the initial public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their over allotment options.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to Lincoln Educational Services Corporation	$	$	$
Proceeds, before expenses, to the selling stockholders	$	$	$

The expenses of the offering, not including the underwriting discount, are estimated at approximately $ and are payable by us.

Overallotment Option

We and the selling stockholders have granted options to the underwriters to purchase up to additional shares at the public offering price less the underwriting discount. The underwriters may exercise these options for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise these options, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Reserved Shares

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the shares offered by this prospectus for sale to certain of our business associates, employees and other persons. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

No Sales of Similar Securities

We, the selling stockholders, our executive officers and directors, certain existing stockholders and certain holders of our options have agreed, subject to limited exceptions, not to sell or transfer any common stock or securities convertible into or exchangeable or exercisable for or repayable with common stock, for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other persons have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock,
- sell any option or contract to purchase any common stock,
- purchase any option or contract to sell any common stock,
- grant any option, right or warrant to purchase any common stock,
- otherwise dispose of or transfer any common stock, or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares of common stock or other securities, in cash or otherwise.

The 180-day restricted period described above is subject to extension such that, in the event that either (a) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (b) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results or we become aware that material news or a material event will occur during the 16-day period beginning on the last day of the 180-day period, the "lock-up" restrictions described above will continue to apply until the expiration of the 18-day period beginning on the date of the earnings release or the occurrence of the material news or material event, unless Merrill Lynch waives such extension in writing.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock.

Quotation on The Nasdaq National Market

We expect the shares to be approved for quotation on The Nasdaq National Market, subject to notice of issuance, under the symbol "LINC."

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations among us, the selling stockholders and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us,
- our financial information,
- the history of, and the prospects for our company and the industry in which we compete,
- an assessment of our management, its past and present operations, and the prospects for and timing of, our future revenues,
- the present state of our development, and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price. The underwriters do not expect to sell more than five percent in the aggregate of the shares being offered in this offering to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the underwriters may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, *i.e.*, if they sell more shares than are listed on the cover of this prospectus, the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the over allotment options described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

The underwriters may also impose a penalty bid on underwriters and selling group members. This means that if the underwriters purchase shares in the open market to reduce the underwriter's short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

Certain of the underwriters may be facilitating Internet distribution for this offering to certain of its Internet subscription customers. The underwriters intend to allocate a limited number of shares for sale to online brokerage customers. An electronic prospectus is available on the Internet Web site maintained by Merrill Lynch and Harris Nesbitt. Other than the prospectus in electronic format, the information on the Web sites are not part of this prospectus.

Other Relationships

An affiliate of Harris Nesbitt Corp. is the administrative agent and a lender under our new credit agreement and Fleet National Bank, an affiliate of Banc of America Securities LLC, is also a lender under our new credit agreement, and will receive more than ten percent of the net proceeds of this offering when we repay the amounts outstanding under the new credit agreement. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8). This rule requires that the public offering price of an equity security be no higher than the price recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to act as qualified independent underwriter for the offering. The price of the shares will be no higher than that recommended by Merrill Lynch, Pierce, Fenner & Smith Incorporated. We have agreed to indemnify Merrill Lynch, Pierce, Fenner & Smith Incorporated against liabilities incurred in connection with acting as a qualified independent underwriter, including liabilities under the Securities Act.

Merrill Lynch owns 3.9% of Stonington Capital Appreciation Fund 1994, which is the sole shareholder of Back to School Acquisition L.L.C., our controlling stockholder.

LEGAL MATTERS

Shearman & Sterling LLP, New York, New York, will pass upon certain legal matters for us. The validity of the shares of common stock offered by this prospectus will be passed upon for us by Lindabury, McCormick & Estabrook, P.A., Westfield, New Jersey. The underwriters are represented by O'Melveny & Myers LLP, New York, New York.

EXPERTS

The consolidated financial statements relating to Lincoln Educational Services Corporation as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein and elsewhere in the registration statement (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the adoption of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation"), and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act relating to the common stock we are offering. This prospectus, which constitutes a part of the registration statement, does not contain all the information that is in the registration statement and its exhibits and schedules. Certain portions of the registration statement have been omitted as allowed by the rules and regulations of the SEC. Statements in this prospectus which summarize documents are not necessarily complete, and in each case you should refer to the copy of the document filed as an exhibit to the registration statement. You may read and copy the registration statement, including exhibits and schedules filed with it, and reports or other information we may file with the SEC at the public reference facilities of the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. In addition, the registration statement and other public filings can be obtained from the SEC's internet site at http://www.sec.gov.

Upon completion of this offering, we will become subject to information and periodic reporting requirements of the Exchange Act, and we will file annual, quarterly and current reports, proxy statements and other information with the SEC. We intend to furnish our stockholders written annual reports containing financial statements audited by our independent auditors, and make available to our stockholders quarterly reports for the first three quarters of each year containing unaudited interim financial statements.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Lincoln Educational Services Corporation
West Orange, New Jersey

We have audited the accompanying consolidated balance sheets of Lincoln Educational Services Corporation and Subsidiaries (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Part II, Item 16(b). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over the financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2004 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 for stock-based compensation in January 2004. The Company retroactively restated the 2002 and 2003 consolidated financial statements for this change.

DELOITTE & TOUCHE LLP
Parsippany, New Jersey

March 28, 2005

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2004
(In thousands, except share amounts)

	December 31, 2003	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,965	$ 41,445
Accounts receivable, less allowance of $5,469 and $7,023 for 2003 and 2004, respectively	10,803	12,820
Inventories	1,087	1,664
Prepaid expenses and other current assets	2,452	2,893
Assets held for sale	—	893
Deferred income taxes	5,354	4,509
Total current assets	68,661	64,224
PROPERTY, EQUIPMENT AND FACILITIES—At cost, net of accumulated depreciation and amortization	42,035	55,149
OTHER ASSETS:		
Deferred finance charges	1,318	943
Prepaid pension cost	4,765	4,820
Other assets	1,633	2,625
Deferred income taxes	992	2,166
Goodwill	19,951	32,802
Total other assets	28,659	43,356
TOTAL	$ 139,355	$ 162,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and lease obligations	$ 3,624	$ 5,311
Unearned tuition	26,249	31,185
Accounts payable	9,022	10,664
Accrued expenses	11,770	12,147
Advance payments of federal funds	738	330
Income taxes payable	3,856	17
Total current liabilities	55,259	59,654
COMMITMENTS AND CONTINGENCIES		
NONCURRENT LIABILITIES:		
Other long-term liabilities	1,736	3,471
Long-term debt and lease obligations, net of current portion	39,436	41,518
Total liabilities	96,431	104,643
STOCKHOLDERS' EQUITY:		
Common stock, no par value—authorized 50,000,000 shares at December 31, 2003 and 2004 issued and outstanding 21,667,610 in 2003 and 21,698,785 shares at 2004	62,385	62,385
Additional paid-in capital	1,426	3,359
Accumulated deficit	(20,455)	(7,477)

Less loan receivable from stockholders	(432)	(181)
Total stockholders' equity	42,924	58,086
TOTAL	$ 139,355	$ 162,729

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except per share amounts)

	Year Ended December 31,		
	2002	2003	2004
REVENUES	$ 139,201	$ 198,881	$ 261,275
COSTS AND EXPENSES:			
Educational services and facilities	66,580	85,201	104,843
Selling, general and administrative	71,753	97,714	130,941
(Gain) loss on sale of assets	(1,082)	(22)	368
Total costs and expenses	137,251	182,893	236,152
OPERATING INCOME	1,950	15,988	25,123
GAIN ON SALE OF SECURITIES	—	211	—
INTEREST INCOME	212	133	104
INTEREST EXPENSE	(2,937)	(2,758)	(3,007)
INCOME (LOSS) BEFORE INCOME TAXES	(775)	13,574	22,220
PROVISION (BENEFIT) FOR INCOME TAXES	(101)	5,355	9,242
NET INCOME (LOSS)	$ (674)	$ 8,219	$ 12,978
Earnings (loss) per share—basic: Net income (loss) available to common shareholders	$ (0.03)	$ .38	$ 0.60
Earnings (loss) per share — diluted: Net income (loss) available to common shareholders	$ (0.03)	$ .37	$ 0.56
Weighted average number of common share outstanding:			
Basic	21,662	21,667	21,676
Diluted	21,662	22,364	23,095

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands)

	Common Stock	Additional Paid-in Capital	Loan Receivable From Stockholders	Accumulated Deficit	Total
BALANCE—December 31, 2001	$ 61,928	$ 168	$ —	$ (28,000)	$ 34,096
Net loss	—	—	—	(674)	(674)
Stock-based compensation expense	—	458	—	—	458
Sale of common stock, net of expenses	457	—	(432)	—	25
BALANCE—December 31, 2002	62,385	626	(432)	(28,674)	33,905
Net income	—	—	—	8,219	8,219
Stock-based compensation expense	—	800	—	—	800
BALANCE—December 31, 2003	62,385	1,426	(432)	(20,455)	42,924
Net income	—	—	—	12,978	12,978
Stock-based compensation expense	—	1,793	—	—	1,793
Stockholder loan repayment	—	—	251	—	251
Tax benefit of options exercised		43	—	—	43
Exercise of stock options	—	97	—	—	97
BALANCE—December 31, 2004	$ 62,385	$ 3,359	$ (181)	$ (7,477)	$ 58,086

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands)

	Year Ended December 31,		
	2002	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (674)	$ 8,219	$ 12,978
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,201	9,879	10,749
Amortization of deferred finance charges	626	689	375
Deferred income taxes	(531)	1,285	(329)
(Gain) loss on sale of assets	(1,082)	(22)	368
Gain on sale of marketable securities	—	(211)	—
Provision for doubtful accounts	5,696	7,415	9,247
Stock-based compensation expense	458	800	1,793
Tax benefit associated with exercise of stock options	—	—	43
(Increase) decrease in assets, net of acquisitions:			
Accounts receivable	(5,792)	(10,131)	(10,998)
Inventories	(132)	124	(577)
Prepaid expenses and current assets	84	(547)	(493)
Other assets and charges	(3,545)	(259)	(830)
Increase (decrease) in liabilities, net of acquisitions:			
Accounts payable	1,716	(447)	1,547
Other liabilities	(657)	326	1,327
Income taxes payable	391	3,465	(3,839)
Accrued expenses	1,580	4,473	377
Unearned tuition	4,384	2,108	4,936
Total adjustments	10,397	18,947	13,696
Net cash provided by operating activities	9,723	27,166	26,674
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(3,598)	(13,154)	(23,813)
Proceeds from sale of facilities	1,443	29	—
Restricted cash	—	9,000	—
Sale of marketable securities	—	3,028	—
Acquisition of a business, net of cash acquired	—	(7,583)	(14,498)
Net cash used in investing activities	(2,155)	(8,680)	(38,311)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	—	51,256	25,290
Payments on borrowings	(2,000)	(29,716)	(21,000)
Net proceeds from finance obligation	—	—	169
Proceeds from sale of common stock	25	—	—
Proceeds from exercise of stock options	—	—	97
Principal payments under capital lease obligations	(1,914)	(2,140)	(690)
Proceeds from shareholder loans	—	—	251
Net cash provided by (used in) financing activities	(3,889)	19,400	4,117
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,679	37,886	(7,520)
CASH AND CASH EQUIVALENTS—Beginning of year	7,400	11,079	48,965
CASH AND CASH EQUIVALENTS—End of year	$ 11,079	$ 48,965	$ 41,445

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:						
Cash paid during the year for:						
Interest	$	2,692	$	2,732	$	2,780
Income taxes	$	115	$	619	$	13,382
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:						
Cash paid during the period for:						
Fair value of assets acquired	$	—	$	16,044	$	14,593
Net cash paid for the acquisitions		—		(7,583)		(14,498)
Liabilities assured	$	—	$	8,461	$	95
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:						

In 2002, the Company issued common stock in exchange for loans receivable of approximately $0.4 million.

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activities—Lincoln Educational Services Corporation and Subsidiaries (the "Company") operate trade schools in various locations, which offer technical programs of study in several different specialties.

In February 2003, Lincoln Educational Services Corporation ("LESC"), which is a holding company that owns 100% of Lincoln Technical Institute, Inc. ("LTI") was formed. The Company effected the creation of LESC by first creating LESC as a wholly owned subsidiary of LTI and then creating Lincoln Acquisition Corporation ("LAC") as a wholly-owned subsidiary of LESC. The Company then merged LTI into LAC with LTI becoming the surviving entity and a wholly owned subsidiary of LESC. All of the stockholders of LTI then exchanged their shares for shares in LESC. The effect of this transaction did not result in any change in ownership or control, as such the assets and liabilities of LESC are reflected at the carryover basis of LTI. The formation of LESC, which was not material, has been retroactively reflected.

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of Lincoln Educational Services Corporation and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition—Revenue is derived primarily from programs taught at the schools. Tuition revenue 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. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Other revenues, such as textbook sales, tool sales and contract training revenues, are recognized as services are performed or goods are delivered. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition. Refunds are calculated and paid in accordance with federal, state and accrediting agency standards.

Cash and Cash Equivalents—Cash and cash equivalents include all cash balances and highly liquid short-term investments, which mature within three months of purchase.

Accounts Receivable—The Company reports accounts receivable at net realizable value, which is equal to the gross receivable less an estimated allowance for uncollectible accounts.

Inventories—Inventories consist mainly of textbooks, tools and supplies. Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Property, Equipment and Facilities—***Depreciation and Amortization***—Property, equipment and facilities are stated at cost. Major renewals and improvements are capitalized, while repairs and maintenance are expensed when incurred. Upon the retirement, sale or other disposition of assets, costs and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in operating income. For financial statement purposes, depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is computed over the lesser of the term of the lease or its estimated useful life.

Deferred Rent Expense—Rent expense related to operating leases where scheduled rent increases exist, is determined by expensing the total amount of rent due over the life of the operating lease on a straight-line basis. The difference between the rent paid under the terms of the lease and the rent expensed on a straight-line basis is included in accrued expenses and other long-term liabilities on the accompanying consolidated balance sheets.

Deferred Finance Charges—These charges in the accompanying consolidated balance sheet consist of $0.8 million and $0.5 million as of December 31, 2003 and 2004, respectively, related to the long-term debt and $0.6 million and $0.4 million as of December 31, 2003 and 2004, respectively, related to the finance obligation. These amounts are being amortized as an increase in interest expense over the respective life of the debt or finance obligation.

Advertising Costs—Costs related to advertising are expensed as incurred and totaled approximately $14.3 million, $17.5 million and $22.3 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Goodwill and Other Intangible Assets—In connection with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, the Company is required to assess for impairment annually, or more frequently, if circumstances indicate impairment may have occurred.

The Company tested the goodwill for impairment by comparing the fair value of each reporting unit with its carrying amount. An impairment analysis was performed as of December 31, 2002, 2003 and 2004. As the carrying amount of each reporting unit did not exceed its fair value, there was no need to record an impairment loss.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its cash and cash equivalents with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. Cash balances are insured by the FDIC up to $100,000 per depositor. The Company's cash balances with financial institutions typically exceed FDIC insured limits. The Company's cash balances on deposit at December 31, 2004, exceeded the balance insured by the FDIC by approximately $39.8 million.

The Company extends credit for tuition and fees to the majority of the students. The credit risk with respect to these accounts receivable is mitigated through the students' participation in federally funded financial aid programs unless students withdraw prior to the receipt of federal funds for those students. In addition, the remaining tuition receivables are primarily comprised of smaller individual amounts due from students.

As of December 31, 2003, and 2004, the Company had no significant concentrations of credit risk.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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, income taxes, benefit plans and certain accruals. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In November 2002, the FASB issued Interpretation No. ("FIN") 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including indirect Guarantees of Indebtedness of Others* . FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a Company issues a guarantee, the Company must recognize an initial liability for the fair value of the obligations the Company assumes under the guarantee and must disclose that information in the financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company has no guarantees which require disclosure or accounting treatment under FIN 45 as of December 31, 2004.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, as amended in December 2003 by FIN 46 (Revised) ("FIN 46-R"), which deferred the effective date until the first interim or annual reporting period ending after March 15, 2004. FIN 46-R requires the consolidation of an entity by an enterprise known as a "primary beneficiary," (i) if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, if they occur, receive a majority of the entity's expected residual returns, if they occur, or both and (ii) if the entity is a variable interest entity ("VIE"), as defined. An entity qualifies as a variable interest entity if (i) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise becomes involved with the entity and re-evaluated as of the date of triggering events, as defined. The adoption of FIN 46-R did not have a material effect on the consolidated financial statements.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21 *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). Under EITF 00-21, in order to separate the accounting for multiple deliverables (products or services) provided to a customer by a vendor, the deliverables must have separable value to the customer. EITF 00-21 is effective for the Company for revenue arrangements entered into after January 1, 2004. The adoption of EITF 00-21 did not have a material effect on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Liabilities, Equity, or Both*, which establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. On November 7, 2003, the FASB deferred, indefinitely, the application of paragraphs 9 and 10 of SFAS No. 150 as it relates to mandatory redeemable non-controlling interests in consolidated subsidiaries in order to address a number of interpretation and implementation issues. The adoption of SFAS 150 did not have a material effect on the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R, "*Share Based Payment*," which eliminates the alternative to measure stock-based compensation awards using the intrinsic value approach permitted by Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock-Based Compensation*" and by SFAS No. 123 *Accounting for Stock-Based Compensation*. The Company has not yet determined what impact, if any, the adoption of SFAS No. 123R will have on the consolidated financial statements; however, as discussed in Note 2, the Company adopted the fair value method of accounting for stock-based compensation provisions of SFAS No. 123 and the retroactive transitional provisions of SFAS No. 148, "*Accounting for Stock-Based Compensation—Transition and Disclosure*." As a result, the Company has been recording stock-based compensation expense for all employee stock awards that were granted or modified.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and requires that such exchanges be measured at fair value, with limited exceptions. SFAS No. 153 amends APB Opinion No. 29 *Accounting for Nonmonetary Transactions* by eliminating the exception that required nonmonetary exchanges of similar productive assets be recorded on a carryover basis. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company will adopt the provisions of SFAS No. 153, as required.

Stock Option Plan—The Company has a stock-based compensation plan as discussed further in Note 9. The Company has adopted the method of accounting for the fair value of its grants under this plan in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as discussed in Note 2. The compensation cost that has been charged against income under this plan was approximately $0.5 million, $0.8 million and $1.8 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Income Taxes—The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

2. ACCOUNTING CHANGE

In light of evolving accounting guidance and business considerations, the Company determined that it was appropriate to adopt a more preferable accounting policy with respect to stock-based compensation. The Company had historically accounted for stock-based compensation in accordance with APB No. 25. The Company believes that the fair value recognition provisions of SFAS No. 123 are preferable to the method of recognizing compensation expense under APB Opinion No. 25, which is based on the difference, if any, on the date of grant, between the fair value of the common stock and the exercise price. The Company adopted SFAS No. 123 on January 1, 2004 under the provisions of SFAS No. 148 permitting retroactive restatement. The Company has retroactively restated stock-based compensation expense and related accounts for all years presented.

3. FINANCIAL AID AND REGULATORY COMPLIANCE

Financial Aid

The schools and students participate in a variety of government-sponsored financial aid programs that assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as the Title IV Programs, which are administered by the U.S. Department of Education (or "DOE"). During the years ended December 31, 2002, 2003 and 2004 approximately 74%, 79% and 81%, respectively, of the net revenues were indirectly derived from funds distributed under Title IV Programs.

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. For this reason, the schools are subject to extensive regulatory requirements imposed by all of these entities. After the schools receive the required certifications by the appropriate entities, the schools must demonstrate their compliance with the DOE regulations of the Title IV Programs on an ongoing basis. Included in these regulations is the requirement that the Company must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based upon the institutions' annual audited financial statements, as well as following a change in ownership of the institution. Under regulations which took effect July 1, 1998, the DOE calculates the institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit.

Regulatory Compliance

An institution that does not meet the DOE's minimum composite score requirements of 1.5 may establish its financial responsibility by posting a letter of credit or complying with additional monitoring procedures as defined by the DOE. We have submitted to the DOE our audited financial statements for the 2003 fiscal year reflecting a composite score of 2.1 based upon our calculations, and that our schools meet the DOE standards of financial responsibility. For 2004 fiscal year we have calculated our composite score to be 1.8.

Based on the Company's calculations, the 2003 and 2004 financial statements reflect a composite score of 2.1 and 1.8, respectively. However, as a result of corrections of certain errors, including accounting for advertising costs, a sale leaseback transaction, rent and certain other individually insignificant adjustments, in our prior financial statements, the DOE recomputed the Company's consolidated composite scores for the years ended December 31, 2001 and 2002 and concluded that the recomputed consolidated composite scores for those two years were below 1.0. In addition, we identified certain additional errors in our financial statements for the year ended December 31, 2003 relating to our accounting for stock-based compensation and accrued bonuses that did not result in a recomputation of our 2003 composite score. The DOE has informed the Company that as a result, for a period of three years effective December 30, 2004, all of the Company's current and future institutions have been placed on "Heightened Cash Monitoring, Type 1 status," and are required to timely notify the DOE with respect to certain enumerated oversight and financial events. The DOE also informed the Company that its circumstances will be taken into consideration when each of our institutions applies for recertification of the Company's eligibility to participate in Title IV Programs. When each of our institutions is next required to apply for recertification to participate in Title IV Programs, we expect that the DOE will also consider our audited financial statements and composite scores for our most recent fiscal year as well as for other fiscal years after 2001 and 2002. Additionally, since the DOE concluded that the previously computed composite scores for 2001 and 2002 were overstated, the Company has agreed to pay $165,000 to the DOE, pursuant to a settlement agreement, to resolve compliance issues related to this matter. The Company paid this amount on March 3, 2005. Although no assurance can be given, the Company's management does not believe that the actions of the DOE specified above will have a material effect on its financial position or results of operations.

The Company was in compliance with the standards established by the DOE requiring that no individual DOE reporting entity can receive more than 90% of its revenue, determined on a cash basis, from Title IV, HEA Program Funds and at least 10% of such revenues need to be derived from sources other than Title IV, HEA Program Funds.

4. WEIGHTED AVERAGE COMMON SHARES

The weighted average numbers of common shares used to compute basic and diluted income per share for the three years ended December 31, 2002, 2003 and 2004, are as follows:

	December 31,		
	2002	2003	2004
Basic shares outstanding	21,662	21,667	21,676
Dilutive effect of stock options	—	697	1,419
Diluted shares outstanding	21,662	22,364	23,095

5. BUSINESS ACQUISITIONS

On March 16, 2001, the Company purchased the rights, title, and interest in the assets utilized in the conduct and operation of Computer-Ed, Inc. for $2.5 million including costs related to the acquisition. Goodwill of $2.1 million was recorded in connection with this acquisition.

On April 6, 2001, the Company purchased from the Trustee in Bankruptcy of Computer Learning Centers, Inc., the assets of Computer Learning Centers, Inc. in Marietta, Georgia, Northeast

Philadelphia, Pennsylvania, Philadelphia, Pennsylvania, Plymouth Meeting, Pennsylvania, Paramus, New Jersey, Somerville, Massachusetts, and Lowell, Massachusetts for $17.1 million including costs related to the acquisition. On March 9, 2001, the Company purchased from the Trustee in Bankruptcy of Computer Learning Centers, Inc., the assets of Computer Learning Centers, Inc. in Norcross, Georgia and Las Vegas, Nevada for $3.6 million including costs related to acquisition. These acquisitions were accounted for using the purchase method of accounting. Goodwill of $10.7 million was recorded in connection with these acquisitions.

On February 14, 2003, a newly formed wholly-owned subsidiary of LTI, Nashville Acquisition, LLC, a Delaware limited liability company, acquired Nashville Auto Diesel College for approximately $7.6 million including costs related to the acquisition, net of $4.1 million of cash acquired. The post acquisition consolidated financial statements include the results of operations of Nashville Auto Diesel College from the acquisition date. The purchase price was allocated to the fair value of the acquired tangible and intangible assets and assumed liabilities. Intangible assets acquired, included in other assets in the accompanying consolidated balance sheet, include student contracts of $0.7 million which are being amortized over a one year period from the date of acquisition and trade name of $0.5 million which is not subject to amortization. Intangible asset amortization expense was $0.6 million and $0.1 million for 2003 and 2004, respectively. Goodwill of approximately $3.8 million, which is deductible for tax purposes, is also not subject to amortization. Included in tangible assets acquired were marketable securities of $2.8 million which were sold during the year, resulting in a gain of $0.2 million. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at February 14, 2003, the date of acquisition.

Property, equipment and facilities	$	7,512
Goodwill, intangible and other assets		5,197
Current assets, excluding cash acquired		3,335
Current liabilities		(7,483)
Other liabilities		(978)
Cost of acquisition, net of cash acquired	$	7,583

The following unaudited pro forma results of operations for the years ended December 31, 2002 and 2003, assumes that the Nashville Auto Diesel College occurred at the beginning of the year preceding the year of acquisition. The unaudited pro forma results of operations are based on historical results of operations, include adjustments for depreciation, amortization, interest, and taxes, and do not necessarily reflect the actual results that would have occurred.

	For the Year Ended December 31,			
	2002		2003	
	(unaudited)			
Pro forma revenues	$	159,969	$	201,882
Pro forma net income	$	852	$	8,481

On January 23, 2004, a newly formed wholly-owned subsidiary of LESC, Southwestern Acquisition, LLC, a Delaware limited liability company, acquired the Southwestern College of Business, Inc. ("Southwestern") in Dayton, Ohio, Cincinnati-Vine Street, Ohio, Cincinnati-Northland Blvd, Ohio, Franklin, Ohio and Florence, Kentucky for approximately $14.5 million, net of cash acquired. Included in this purchase price is certain real estate which was subsequently acquired from Southwestern for $0.7 million. The post acquisition consolidated financial statements include the results of operations of the Southwestern College of Business, Inc. from the acquisition date. The purchase price was allocated to Southwestern's identifiable net assets with the excess, if any, of the purchase price over the fair value of the net assets acquired recorded as goodwill. Intangible assets acquired, included in other assets in the accompanying consolidated balance sheet, include student contracts of $0.3 million which are being amortized over a one year period from the date of acquisition and trade name of $0.3 million which is not subject to amortization. Intangible asset amortization expense for the year ended December 31, 2004 was $0.3 million. Goodwill of approximately $12.8 million, which is deductible for tax purposes, is also not subject to amortization. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at January 23, 2004 the date of acquisition.

Property, equipment and facilities	$	890
Goodwill and intangible assets		13,436
Current assets, excluding cash acquired		267
Current liabilities		(95)
Cost of acquisition, net of cash acquired	$	14,498

The following unaudited pro forma results of operations for the years ended December 31, 2003 and 2004, assumes that the acquisition of Southwestern occurred at the beginning of the year preceding the year of acquisition. The unaudited pro forma results of operations are based on historical results of operations, include adjustments for depreciation, amortization, interest, and taxes, and do not necessarily reflect the actual results that would have occurred.

	December 31, 2002		December 31, 2003	
	(unaudited)			
Pro forma revenues	$	204,712	$	261,279
Pro forma net income	$	8,349	$	12,833

On October 20, 2004, New England Acquisition, LLC, a newly formed wholly-owned subsidiary of LESC executed an asset purchase agreement to acquire the rights, title and interests in the assets used in the conduct and operation of New England Technical Institute ("NETI") for a purchase price of approximately $20.0 million. NETI operates four schools in New Britain, Hamden, Shelton and Cromwell, Connecticut. This transaction closed on January 11, 2005. See also Note 19.

6. PROPERTY, EQUIPMENT AND FACILITIES

A summary of property, equipment and facilities is as follows:

	As of December 31, 2003	As of December 31, 2004	Useful life (Years)
Land	$ 4,395	$ 4,213	—
Buildings and improvements	40,127	57,407	3–25
Equipment, furniture and fixtures	32,410	37,260	3–7
Vehicles	1,569	1,738	3–7
Construction in progress	3,285	1,976	
	81,786	102,594	
Less accumulated depreciation and amortization	(39,751)	(47,445)	
	$ 42,035	$ 55,149	

Included above in equipment, furniture and fixtures are assets acquired under capital leases as of December 31, 2003 and, 2004 of $7.2 million and $7.0 million, respectively, net of accumulated depreciation of $4.7 million and $5.3 million, respectively.

Depreciation and amortization expense of property, equipment and facilities was $7.2 million, $9.3 million and $10.3 million for the years ended December 31, 2002, 2003 and 2004, respectively.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of December 31, 2003	As of December 31, 2004
Accrued compensation and benefits	$ 8,956	$ 9,750
Other accrued expenses	2,814	2,397
	$ 11,770	$ 12,147

8. LONG-TERM DEBT AND LEASE OBLIGATIONS

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

	As of December 31, 2003	As of December 31, 2004
Credit Facility	$ 32,000	$ 35,750
Finance obligation	9,503	9,672
Automobile loans	132	113
Capital leases—computers (with rates ranging from 6.9% to 19.9%)	1,425	1,294
	43,060	46,829
Less current maturities	(3,624)	(5,311)
	$ 39,436	$ 41,518

Scheduled maturities of long-term debt outstanding at December 31, 2004, are as follows:

Year Ending December 31,	Credit Facility	Lease Obligations and Auto Loans	Total
2005	$ 5,000	$ 311	$ 5,311
2006	—	283	283
2007	—	210	210
2008	—	207	207
2009	—	133	133
Thereafter	30,750	9,935	31,013
	$ 35,750	$ 11,079	$ 37,157

Effective February 11, 2003, the Company entered into a new Credit Agreement (the "Credit Agreement"), which completely refinanced the previous debt agreement. The Credit Agreement is a $25.0 million revolving facility. The term of the credit agreement is three years and outstanding borrowings bear interest at the rate of adjusted LIBOR plus 3.25% or a base rate (as defined in the credit agreement) plus 1.5%. At December 31, 2004, the interest rate on the amounts outstanding ranged from 5.7% to 6.75%. In addition to paying interest on outstanding principal under the credit agreement, Lincoln Technical Institute, Inc., its subsidiaries and Southwestern are required to pay a commitment fee to the lender with respect to the unused amounts available under the credit agreement at a rate equal to 0.5% per year. Lincoln Technical Institute, Inc., its subsidiaries and Southwestern are charged quarterly interest at an annual rate of 3.25% on the outstanding balance of letters of credit issued under the agreement. At December 31, 2004, the Company had outstanding letters of credit aggregating $4.0 million.

The Credit Agreement requires that the Company maintain certain financial covenants, as defined, including a minimum quarterly EBITDA (as defined), maximum capital expenditures and maximum debt leverage ratios. The obligations of Lincoln Technical Institute, Inc., its subsidiaries and Southwestern under the credit agreement are secured by a first priority lien upon substantially all of the assets that it, its subsidiaries and Southwestern own and any assets that it, its subsidiaries and

Southwestern may acquire in the future, including a pledge of substantially all of its, its subsidiaries' and Southwestern's common stock.

As of December 31, 2004, the Company was in compliance with the financial covenants contained in the credit agreement.

In December 2003, the revolving credit facility was increased to $40.0 million. In January 2004 it was decreased to $35.0 million until it expires in February 2006. On December 28, 2004, the credit agreement was amended to permit the acquisition of NETI and to increase the aggregate permitted borrowings under the agreement to $40 million through January 15, 2005, at which time it reverted back to $35.0 million. On February 15, 2005, the Company replaced its Credit Agreement. See Note 19.

The Company completed a sale and a leaseback of several facilities on December 28, 2001, as discussed further in Note 11. The Company retained a continuing involvement in the lease, as defined in SFAS No. 98, *Accounting for Leases, Sales-Leaseback Transactions Involving Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases*, and as a result it is prohibited from utilizing sale-leaseback accounting. Accordingly, the Company has treated this transaction as a finance lease. Rent payments under this obligation were $1.2 million for the years ended December 31, 2003 and 2004, respectively. These payments have been reflected in the accompanying consolidated income statement as interest expense for all periods presented since the effective interest rate on the obligation is higher than the scheduled payments.

9. STOCKHOLDERS' EQUITY

In April 2001, the Company instituted a 100:1 stock split resulting in 50,000,000 shares authorized. All share and per share amounts have been adjusted to give retroactive effect to this stock split.

On July 30, 2001, three senior members of management and a member of the Board of Directors purchased 222,448 shares for cash proceeds of $0.7 million. Also in 2001, an existing shareholder purchased an additional 403,600 shares for cash proceeds of approximately $1.2 million.

During 2002, 147,563 shares were purchased by certain officers and directors. In connection with the purchase of these shares, the Company received promissory notes for approximately $0.4 million, payable in 10 years. Interest is payable annually at an annual interest rate of 5.6%. These notes have been reflected as a reduction in stockholders' equity. During 2004, approximately $0.3 million of these loans were repaid.

Effective January 1, 2002, the Company adopted The Lincoln Technical Institute Management Stock Option Plan ("Plan") for key employees, consultants and nonemployee directors. The name of the Plan was changed to the LESC Management Stock Option Plan in 2003. There are reserved for issue, upon exercise of options granted under the Plan, no more than 2,087,835 shares of the authorized common shares. The term of each option granted is ten years. The options awarded to each key employee are evenly divided between service options, which vest annually from the date of grant, and performance options, which vest according to annual targets. The vesting of the options varies depending on date of hire. For all key employees, or non-employee directors who were with the Company prior to February 1, 2001, 20% of their service options were granted as of the effective date with 20% vesting annually thereafter. For their performance options, 25% will vest each year beginning April 15, 2003, subject to the Company achieving certain financial goals. For all key employees, or non-employee directors who were hired after February 1, 2001, 20% of their service options vest on the anniversary of their hire date. Similarly, 20% of their performance options will vest on each April 15 after the date of hire subject to achieving certain financial goals and vest in full after five years. The exercise price of the options is equal to the estimated fair value of the shares at the date of grant, which is determined by the board of directors as long as the Company is a privately-held entity.

As discussed in Note 2, the Company changed its method of calculating the fair value of its stock options. The Company utilized the minimum value method in 2002 and volatility assumptions commencing in 2003. 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 with the following weighted-average assumptions.

	December 31,		
	2002	2003	2004
Expected volatility	0%	66.9–82.0%	59.79–80.35%
Expected dividend yield	0%	0%	0%
Expected life (term)	3–7 Years	3–8.5 Years	4–8.5 Years
Risk-free interest rate	2.02–5.68%	1.89–5.85%	2.45–4.27%
Weighted-average fair value of options granted during the year	$ 3.10	$ 11.94	$ 23.88

The following is a summary of transactions pertaining to the option plans. Outstanding options at December 31, 2000 below are options provided to a board director in connection with the Company's acquisition:

	Shares	Weighted-Average Exercise Price
Outstanding December 21, 2000	161,500	$ 1.55
Granted	—	—
Outstanding December 31, 2001	161,500	1.55
Granted	1,922,420	3.10
Cancelled	(388,200)	3.10
Outstanding December 31, 2002	1,695,720	2.95
Granted	547,375	11.98
Cancelled	(87,500)	3.10
Outstanding December 31, 2003	2,155,595	5.22
Granted	128,500	23.88
Cancelled	(230,425)	9.49
Exercised	(31,175)	3.10
Outstanding December 31, 2004	2,022,495	$ 5.92

	As of December 31, 2004							
	Stock Options Outstanding				Stock Options Exercisable			
Range of Exercise Prices	Shares	Contractual Weighted Average life (years)		Weighted Average Price	Shares		Weighted Exercise Price
$1.55	161,500	4.47	$	1.55	161,500	$	1.55
$3.10	1,364,120	7.04		3.10	726,082		3.10
$4.00–$10.00	93,000	8.36		6.07	18,600		6.07
$14.00	275,375	8.85		14.00	68,680		14.00
$20.00–$25.00	128,500	9.28		23.88	0		0.0
	2,022,495	7.28	$	5.92	974,862	$	3.67

10. 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 nonunion employees.

The following table sets forth the plan's funded status and amounts recognized in the consolidated financial statements as of December 31:

	Year Ended December 31,		
	2002	2003	2004
CHANGES IN BENEFIT OBLIGATIONS:			
Benefit obligation—beginning of year	$ 9,625	$ 10,912	$ 11,966
Service cost	108	115	108
Interest cost	700	721	716
Curtailment	—	—	—
Assumption changes	1,246	—	—
Actuarial loss (gain)	(450)	686	683
Benefits paid	(317)	(468)	(418)
Benefit obligation at end of year	10,912	11,966	13,055

CHANGE IN PLAN ASSETS:			
Fair value of plan assets—beginning of year	$ 9,225	$ 11,065	$ 13,231
Actual return on plan assets	(624)	2,220	1,258
Employer contribution	2,802	414	—
Benefits paid, including expenses	(338)	(468)	(418)
Fair value of plan assets—end of year	11,065	13,231	14,071
Fair value in excess of benefit obligation	153	1,265	1,016
FUNDED STATUS:			
Unrecognized net actuarial loss	4,511	3,503	3,805
Unrecognized prior service cost	4	3	2
Unrecognized transition asset	(9)	(6)	(3)
Prepaid pension cost	$ 4,659	$ 4,765	$ 4,820
COMPONENTS OF NET PERIODIC BENEFIT COST (INCOME):			
Service cost	$ 108	$ 115	$ 108
Interest cost	700	721	716
Expected return on plan assets	(827)	(938)	(1,105)
Amortization of transition asset	(3)	(3)	(3)
Amortization of prior service cost	1	1	1
Recognized net actuarial loss	97	413	228
Net periodic benefit cost (income)	$ 76	$ 309	$ (55)

Fair value of total plan assets by major asset category:

	As of December 31,		
	2002	2003	2004
Cash and cash equivalents	7.8%	1.0%	—
Domestic equities	41.8%	45.0%	48.0%
International equities	9.3%	10.0%	11.0%
Domestic fixed income	41.1%	38.0%	35.0%
International fixed income	0.0%	6.0%	6.0%
Total	100.0%	100.0%	100.0%

Weighted-average assumptions used to determine benefit obligations as of December 31:

	2002	2003	2004
Discount Rate	6.75%	6.10%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%

Weighted-average assumptions used to determine net periodic pension cost for years ended December 31:

	2002	2003	2004
Discount Rate	7.75%	6.75%	6.10%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

As this plan was frozen to non-union employees on December 31, 1994, the difference between the benefit obligation and accumulated benefit obligation is not significant in any year.

The Company invests plan assets based on a total return on investment approach, pursuant to which the plan assets include a diversified blend of equity and fixed income investments toward a goal of maximizing the long-term rate of return without assuming an unreasonable level of investment risk. The Company determines the level of risk based on an analysis of plan liabilities, the extent to which the value of the plan assets satisfies the plan liabilities and the plan's financial condition. The investment policy includes target allocations ranging from 30% to 70% for equity investments, 20% to 60% for fixed income investments and 0% to 10% for cash equivalents. The equity portion of the plan assets represents growth and value stocks of small, medium and large companies. The Company measures and monitors the investment risk of the plan assets both on a quarterly basis and annually when the Company assesses plan liabilities.

The Company uses a building block approach to estimate the long-term rate of return on plan assets. This approach is based on the capital market principle that the greater the volatility, the greater the return over the long term. An analysis of the historical performance of equity and fixed income investments, together with current market factors such as the inflation and interest rates, are used to help make the assumptions necessary to estimate a long-term rate of return on plan assets. Once this estimate is made, the Company reviews the portfolio of plan assets and make adjustments thereto that the Company believes are necessary to reflect a diversified blend of equity and fixed income investments that is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk. The Company also compares the portfolio of plan assets to those of other pension plans to help assess the suitability and appropriateness of the plan's investments.

While the Company does not expect to make any contributions to the plan in the next fiscal year, after considering the funded status of the plan, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to the plan in any given year.

Information about the expected benefit payments for the plan is as follows:

Expected benefit payments:		
2005	$	342
2006		510
2007		744
2008		515
2009		1,154
2010-2014		2,757

Effective January 1, 1995, the Company established a 401(k) salary reduction plan for all eligible employees. Employees may contribute up to 15% of their compensation into the plan. The Company will contribute an additional 30% of the employee's contributed amount on the first 6% of compensation. For the years ended December 31, 2002, 2003 and 2004 the Company's expense for the 401(k) plan amounted to $0.3 million, $0.5 million and $0.9 million, respectively.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments—The Company leases office premises, educational facilities and various equipment for varying periods through the year 2020 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases) as follows:

Year Ending December 31,		Finance Obligations		Operating Leases		Capital Leases
2005	$	1,258	$	12,095	$	372
2006		1,258		11,784		320
2007		1,258		11,478		236
2008		1,258		10,943		236
2009		1,258		9,393		164
Thereafter		8,915		47,445		275
		15,205		103,138		1,603
Less amount representing interest		(15,205)		—		(309)
	$	—	$	103,138	$	1,294

On December 28, 2001, the Company completed a sale and a leaseback of four owned facilities to a third party for net proceeds of approximately $8.8 million. The initial term of the lease is 15 years with two ten-year extensions. The lease is an poerating lease that starts at $1.2 million in the first year and increases annually by the consumer price index. The lease includes an option near the end of the initial lease term to purchase the facilities at fair value, as defined. In connection with this transaction, $9.0 million of cash received was required to be maintained as collateral security under the previous loan agreement and was reflected as restricted cash. Upon entering into the Credit Agreement on February 11, 2003, these restrictions were effectively eliminated. This transaction is being accounted for as a financing. The net proceeds received have been reflected in the consolidated balance sheet as a finance obligation. The lease payments are included as a component of interest expense.

Rent expense, included in general and administrative expenses in the accompanying financial statements for the years ended December 31, 2002, 2003 and 2004 is $11.5 million $11.8 million, and $15.2 million, respectively. Interest expense related to the financing obligation in the accompanying financial statements for the years ended December 31, 2002, 2003 and 2004 is $1.2 million.

Litigation and Regulatory Matters—The Company has been named as a defendant in actions resulting from the normal course of operations. Based, in part, on the opinion of counsel, management believes that the resolution of these matters will not have a material effect on its financial position, results of operations and cash flows.

Letters of Credit—The Company has available $9.0 million of letters of credit under the Credit Agreement. There are outstanding letters of credit relative to bonding and building rental agreements in the amount of $2.6 million, $5.8 million and $4.0 million at December 31, 2002, 2003 and 2004, respectively.

12. INCOME TAXES

Provision (benefit) for income taxes includes the following:

	December 31,		
	2002	2003	2004
Currently payable:			
Federal	$ 39	$ 3,401	$ 7,774
State	391	669	1,797
Total	430	4,070	9,571
Deferred:			
Federal	(337)	859	(329)
State	(194)	426	—
Total	(531)	1,285	(329)
Total provision (benefit)	$ (101)	$ 5,355	$ 9,242

The components of the deferred tax assets are as follows:

	December 31, 2003	December 31, 2004
Deferred tax assets		
Current:		
Vacation	$ 291	$ 350
Allowance for bad debts	2,160	2,809
Accrued student fees	898	706
Accrued legal fees	21	22
Accrued bonus	1,412	—
Medical claims	543	594
Other	29	28
Total current deferred tax assets	5,354	4,509
Noncurrent:		
Accrued rent	396	1,042
Stock-based compensation	316	813
Depreciation	951	1,783
Other Intangibles	195	297
Sale leaseback—deferred gain	1,497	1,627
Total noncurrent deferred tax assets	3,355	5,562
Total deferred tax assets	8,709	10,071
Deferred tax liabilities		
Noncurrent:		
Other	—	(24)
Goodwill	(453)	(1,444)
Prepaid pension cost	(1,910)	(1,928)
Total deferred tax liabilities	(2,363)	(3,396)
Total net noncurrent deferred tax assets	992	2,166
Total net deferred tax assets	$ 6,346	$ 6,675

As of December 31, 2003 the Company had utilized all available net operating loss carry forwards.

The difference between the actual tax provision (benefit) and the tax provision (benefit) that would result from the use of the Federal statutory rate is as follows:

	Year Ended December 31,					
	2002		2003		2004	
Income (loss) before taxes	$ (775)	100.0 %	$ 13,574	100.0 %	$ 22,220	100.0%
Expected tax (benefit)	$ (264)	(34.0)%	$ 4,615	34.0 %	$ 7,777	35.0 %
Other nondeductible item	—	—	161	1.2	297	1.3
Other	(47)	(6.1)	(144)	(1.0)	—	—
State tax expense (net of Federal benefit)	210	27.1	723	5.3	1,168	5.3
Total	$ (101)	(13.0)%	$ 5,355	39.5%	$ 9,242	41.6%

13. SEGMENT REPORTING

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the way that public business enterprises report certain information about operating segments in their financial reports. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in assessing performance of the segment and in deciding how to allocate resources to an individual segment. SFAS No. 131 also established standards for related disclosures about products and services, geographic areas and major customers.

The Company's principal business is providing post-secondary education. Accordingly, the Company's operations aggregate into one reporting segment.

14. RELATED PARTY TRANSACTIONS

The Company had a consulting agreement with Hart Capital LLC, which terminated by its terms in June, 2004, to advise the Company in identifying acquisition and merger targets and assisting with the due diligence reviews of and negotiations with these targets. Hart Capital LLC is the managing member of Five Mile River Capital Partners LLC, which is the second largest stockholder of the Company. Steven Hart, the President of Hart Capital LLC, sits on the Company's board of directors. The Company paid Hart Capital LLC a monthly retainer, reimbursement of expenses and an advisory fee for its work on successful acquisitions or mergers. In accordance with the agreement, the Company paid Hart Capital LLC approximately $0.7 million, $0.6 million and $0.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. Pursuant to the agreement, the Company may have future obligations to make certain payments to Hart Capital with respect to acquisition opportunities identified for the Company by Hart Capital prior to the termination of the agreement, if the Company consummates any such acquisition opportunities within the twelve months following the termination of the agreement. Accordingly, in connection with the consummation of the NETI acquisition, which closed on January 11, 2005, the Company paid Hart Capital $0.3 million for its services.

In 2003, the Company entered into a management service agreement with it's the majority stockholder, Stonington Partners. In accordance with this agreement the Company pays Stonington Partners a management fee of $0.75 million per year for management consulting and financial and business advisory services. Such services include valuing acquisitions and structuring their financing and assisting with new loan agreements. This agreement will terminate by its terms upon the Company's completion of an initial public offering.

As discussed in Note 9, during 2002, the Company advanced certain members of senior management approximately $0.4 million in connection with their purchase of Company Stock. These notes have been reflected as a reduction in stockholders' equity. During 2004, approximately $0.2 million of these loans were repaid.

15. SALE/DISPOSAL OF ASSETS

During 2002, the Company sold certain assets and property at the Oak Lawn, Illinois school for net proceeds of approximately $1.3 million and recognized a gain on this sale of approximately $1.0 million. In connection with the sale, the Company recorded another current asset of approximately $0.3 million representing a reimbursement due from the State of Illinois for environmental remediation costs incurred. This reimbursement was received in 2003.

During 2002, the Company sold certain assets for net proceeds of $0.2 million and recognized a gain of approximately $0.1 million.

During 2004, the Company vacated its facility in Indianapolis resulting in a loss on the disposal of assets of approximately $0.3 million. The Company is currently seeking to sell the property and has reclassified the assets to assets held for sale.

16. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Quarterly financial information for 2003 and 2004 is as follows (in thousands except per share data):

	Quarter			
2003	**First**	**Second**	**Third**	**Fourth**
Net revenues	$ 41,246	$ 43,751	$ 53,711	$ 60,173
Income (loss) from operations	883	(1,452)	6,540	10,017
Net income available to common shareholders	43	(1,082)	3,499	5,759
Income per share:				
Basic	$ 0.00	$ (0.05)	$ 0.16	$ 0.27
Diluted	0.00	(0.05)	0.16	0.26

2004	Quarter First	Second	Third	Fourth
Net revenues	$ 59,574	$ 59,206	$ 69,196	$ 73,299
Income from operations	3,632	2,119	8,293	11,079
Net income available to common shareholders	1,618	860	4,393	6,107
Income per share:				
Basic	$ 0.07	$ 0.04	$ 0.20	$ 0.28
Diluted	0.07	0.04	0.19	0.27

17. ACCOUNTING FOR LEASES

In connection with the recent clarification by the Securities and Exchange Commission (the "SEC") of existing accounting literature related to lease accounting, the Company has completed a review of its lease accounting policies. As a result of that review, it is correcting its lease accounting practices for certain matters relating to lease accounting, as described below.

As a result, the Company has recorded a one-time, non-cash rent charge of $0.7 million ($0.4 million net of tax, related to prior years) in its fourth quarter of fiscal 2004 related to the timing of rent expense for its schools during the period of construction of leasehold improvements as well as to align the depreciation lives of certain of its leasehold improvements to the noncancellable lease terms, including renewal options. Previously, the Company did not report rent expense until the lease commencement date. The Company will record rent expense when the landlord allows it to begin construction of the leasehold improvements, which is typically three to four months before the lease commencement date.

The Company's financial statements for prior periods have not been restated since the amount, $0.04 million, net of tax, related to prior years was deemed to be immaterial to its results of operations and statements of financial position and cash flows for the current year or any individual prior year. This correction does not impact historical or future cash flows or timing of payments under related leases.

18. INITIAL PUBLIC OFFERING

On September 30, 2004, the Company wrote-off $2.1 million of deferred offering costs as a result of a delay in filing the Company's registration statement. The Company is presently preparing an initial public offering of its common stock. Completion of such offering cannot be assured.

19. SUBSEQUENT EVENT

The Company has negotiated a new credit agreement with a syndicate of banks led by its existing lender. Under the terms of the agreement, which closed on February 15, 2005, the syndicate has committed to provide the Company with a $100 million credit facility with a term of five years. The credit agreement permits the issuance of letters of credit, up to $20 million, the amount of which reduces the availability of permitted borrowings under the agreement.

The obligations of the Company and its subsidiaries under the credit agreement are secured by a lien on substantially all of the assets of the Company and its subsidiaries and any assets that it or its subsidiaries may acquire in the future, including a pledge of substantially all of its and its subsidiaries' common stock. Outstanding borrowings bear interest at the rate of adjusted LIBOR plus 1.0% to 1.75%, as defined or a base rate (as defined in the credit agreement). In addition to paying interest on outstanding principal under the credit agreement, the Company and its subsidiaries are required to pay a commitment fee to the lender with respect to the unused amounts available under the credit agreement at a rate equal to 0.25% to .40% per year, as defined.

On January 11, 2005, the Company acquired the rights, title and interests in the assets used in the conduct and operations of NETI for a purchase price of approximately $20 million. The Company has not yet finalized the allocation of the purchase price to the fair value of the net assets acquired. On a preliminary basis, however, they have allocated $1.3 million to a non-compete agreement and $0.4 million to the value of student contracts.

* * * * * *

LINCOLN EDUCATIONAL SERVICES CORPORATION
Schedule II—Valuation and Qualifying Accounts
(in thousands)

Description	Balance at Beginning of Period	Charged to Expense	Deductions	Balance at End of Period
Allowance accounts for the year ended:				
December 31, 2002 Allowance for accounts receivable	$ 1,828	5,696	4,146	$ 3,378
December 31, 2003 Allowance for accounts receivable	$ 3,378	7,415	5,324	$ 5,469
December 31, 2004 Allowance for accounts receivable	$ 5,469	9,247	7,693	$ 7,023

Until , 2005 (25 days after the commencement of the offering), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Shares

LINCOLN
EDUCATIONAL SERVICES

Lincoln Educational Services Corporation

Common Stock

PROSPECTUS

Merrill Lynch & Co.
Banc of America Securities LLC
Lehman Brothers
Harris Nesbitt
Jefferies & Company, Inc.
Robert W. Baird & Co.

, 2005

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following are the estimated expenses to be incurred in connection with the issuance and distribution of the securities registered under this Registration Statement, other than underwriting discounts and commissions. All amounts shown are estimates except the Securities and Exchange Commission registration fee and the National Association of Securities Dealers, Inc. filing fee. The following expenses will be borne solely by the Registrant.

SEC Registration Fee	$	16,919.38
National Association of Securities Dealers, Inc. Filing Fee		*
Nasdaq Listing Fee		*
Printing and Engraving Expenses		*
Legal Fees and Expenses		*
Accounting Fees and Expenses		*
Transfer Agent and Registrar Fees and Expenses		*
Miscellaneous		*
Total		*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers

The New Jersey Business Corporation Act permits or requires indemnification of officers and directors in the event that certain statutory standards of conduct are met.

We expect that our amended and restated certificate of incorporation, which we expect to adopt prior to the completion of this offering, will provide as follows:

The Corporation shall indemnify any and all persons who may serve or who have served at any time as directors or officers of the corporation, or who at the request of the Board of Directors of the corporation may serve or at any time have served as directors or officers of another corporation in which the corporation at such time owned or may own shares of stock or of which it was or may be a creditor, and their respective heirs, administrators, successors, and assigns, against any and all expenses, including amounts paid upon judgments, counsel fees, fines and amounts paid in settlement, actually and necessarily incurred by such persons in connection with the defense or settlement of any pending or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, in which they, or any of them, are made parties, or a party, or which may be asserted against them or any of them, by reason of being or having been directors or officers or a director or officer of the corporation, or of such other corporation, except if a judgment or other final adjudication adverse to the corporate agent establishes that his acts or omissions (a) were in breach of his duty of loyalty to the corporation or its shareholders (as defined in N.J.S.A. 14A:2-7(3)), (b) were not in good faith or involved a knowing violation of law, or (c) resulted in the receipt by the corporate agent of an improper personal benefit. Such indemnification shall be in addition to any other rights to which those indemnified may be entitled under any law, bylaw, agreement, vote of stockholders, or otherwise.

We expect that our amended and restated bylaws, which we expect to adopt prior to the completion of this offering, will provide as follows:

The Corporation shall indemnify any and all persons who may serve or who have served at any time as directors or officers of the corporation, or who at the request of the Board of Directors of the corporation may serve or at any time have served as directors or officers of another corporation in which the corporation at such time owned or may own shares of stock or of which it was or may be a creditor, and their respective heirs, administrators, successors, and assigns, against any and all expenses, including amounts paid upon judgments, counsel fees, fines and amounts paid in settlement, actually and necessarily incurred by such persons in connection with the defense or settlement of any pending or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, in which they, or any of them, are made parties, or a party, or which may be asserted against them or any of them, by reason of being or having been directors or officers or a director or officer of the corporation, or of such other corporation, except if a judgment or other final adjudication adverse to the corporate agent establishes that his acts or omissions (a) were in breach of his duty of loyalty to the corporation or its shareholders (as defined in N.J.S.A. 14A:2-7(3)), (b) were not in good faith or involved a knowing violation of law, or (c) resulted in the receipt by the corporate agent of an improper personal benefit. Such indemnification shall be in addition to any other rights to which those indemnified may be entitled under any law, bylaw, agreement, vote of stockholders, or otherwise.

See Item 17 for our undertaking to submit to adjudication for violation of these security laws.

Item 15. Recent Sales of Unregistered Securities

During the past three years, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters or any public offerings and we believe that each of these transactions was exempt from registration requirements pursuant to Section 3(a)(9) or Section 4(2) of the Securities Act of 1933, as amended, Regulation D promulgated thereunder or Rule 701 of the Securities Act of 1933 pursuant to compensatory benefit plans and contracts related to compensation as provided under Rule 701. The recipients of the securities in these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in these transactions.

On July 30, 2001, three senior members of management and member of the Board of Directors purchased 222,448 shares from the Company for cash proceeds of $689,588.

During 2002, 147,563 shares were purchased by certain officers and directors. In connection with the purchase of these shares, the Company received promissory notes for approximately $432,000, payable in 10 years. Interest is payable annually at an annual interest rate of 5.6%. These notes have been reflected as a reduction in shareholder's equity. As of March 24, 2005, the promissory notes were repaid in full.

Item 16. Exhibits and Financial Statement Schedules

(a) *Exhibits*.

Exhibit Number	Description
*1.1	Form of Underwriting Agreement.
3.1	Certificate of Incorporation of Registrant and amendments thereto.
*3.2	Form of Amended and Restated Certificate of Incorporation of Registrant (to become effective upon completion of the offering).
3.3	Bylaws of registrant.
*3.4	Form of Amended and Restated Bylaws of Registrant (to become effective upon completion of the offering).

*4.1	Specimen Certificate evidencing shares of common stock.
4.2	Stockholders' Agreement, dated as of September 15, 1999, among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C., and Five Mile River Capital Partners LLC.
4.3	Letter agreement, dated August 9, 2000, by Back to School Acquisition, L.L.C., amending the Stockholders' Agreement.
4.4	Letter agreement, dated August 9, 2000, by Lincoln Financial Technical Institute, Inc., amending the Stockholders' Agreement.
4.5	Stockholders' Agreement, dated as of June 21, 1999, among Technical Institute, Inc., Back to School Acquisition, L.L.C., P.J. Santangelo and James Santangelo.
4.6	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.
*4.7	Registration Rights Agreement between Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C.
*5.1	Form of Opinion of Lindabury, McCormick & Estabrook, P.A. regarding legality of common stock.
10.1	Credit Agreement, dated as of February 15, 2005, among Lincoln Educational Services Corporation, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Harris Trust and Savings Bank, as Administrative Agent.
10.2	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and David F. Carney.
*10.3	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and David F. Carney.
10.4	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Lawrence E. Brown.
*10.5	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Lawrence E. Brown.
10.6	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Scott M. Shaw.
*10.7	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Scott M. Shaw.
10.8	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Cesar Ribeiro.
*10.9	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Cesar Ribeiro.
*10.10	Lincoln Educational Services Corporation 2005 Long Term Incentive Plan.
*10.11	Lincoln Educational Services Corporation 2005 Non Employee Directors Restricted Stock Plan.
*10.12	Lincoln Educational Services Corporation 2005 Deferred Compensation Plan.

*10.13	Lincoln Educational Services Corporation 2005 Employee Stock Purchase Plan.
10.14	Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002.
10.15	Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants.
10.16	Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors.
21.1	Subsidiaries of Registrant.
*23.1	Consent of Lindabury, McCormick & Estabrook, P.A. (included in Exhibit 5.1).
23.2	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney (included on signature page).

* To be filed by amendment.

(b) *Financial Statement Schedules*.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission and are required under the related instructions are as follows:

1. Lincoln Educational Services Corporation, Schedule II—Valuation and Qualifying Accounts.

Item 17. Undertakings

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned Registrant undertakes that:

i. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

ii. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) The undersigned Registrant undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in West Orange, New Jersey on March 28, 2005.

LINCOLN EDUCATIONAL SERVICES CORPORATION

By: /s/ DAVID F. CARNEY

David F. Carney
Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of Lincoln Educational Services Corporation, hereby severally constitute and appoint David F. Carney and Cesar Ribeiro and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, of substitution and resubstitution, to sign for us and in our names in the capacities indicated below, the Registration Statement on Form S-1 filed herewith and any and all pre-effective and post-effective amendments to said Registration Statement on Form S-1, and any subsequent Registration Statement for the same offering which may be filed under Rule 462(b), and generally to do all such things in our names and on our behalf in our capacities as officers and directors to enable Lincoln Educational Services Corporation to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney, or any of them, or their substitute or substitutes, to said Registration Statement and any and all pre-effective and post-effective amendments thereto or to any subsequent Registration Statement for the same offering which may be filed under Rule 462(b).

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVID F. CARNEY David F. Carney	Chief Executive Officer and Chairman of the Board	March 28, 2005
/s/ CESAR RIBEIRO Cesar Ribeiro	Vice President, Chief Financial Officer and Treasurer	March 28, 2005
/s/ JAMES J. BURKE James J. Burke	Director	March 28, 2005
/s/ PAUL GLASKE Paul Glaske	Director	March 28, 2005

/s/ STEVEN W. HART		
Steven W. Hart	Director	March 28, 2005
/s/ ALEXIS P. MICHAS		
Alexis P. Michas	Director	March 28, 2005
John Petillo	Director	March 28, 2005
/s/ JERRY G. RUBENSTEIN		
Jerry G. Rubenstein	Director	March 28, 2005
/s/ PETER S. BURGESS		
Peter S. Burgess	Director	March 28, 2005

EXHIBIT INDEX

The following exhibits are filed with this Registration Statement.

Exhibit Number	Description
*1.1	Form of Underwriting Agreement.
3.1	Certificate of Incorporation of Registrant and amendments thereto.
*3.2	Form of Amended and Restated Certificate of Incorporation of Registrant (to become effective upon completion of the offering).
3.3	Bylaws of registrant.
*3.4	Form of Amended and Restated Bylaws of Registrant (to become effective upon completion of the offering).
*4.1	Specimen Certificate evidencing shares of common stock.
4.2	Stockholders' Agreement, dated as of September 15, 1999, among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C., and Five Mile River Capital Partners LLC.
4.3	Letter agreement, dated August 9, 2000, by Back to School Acquisition, L.L.C., amending the Stockholders' Agreement.
4.4	Letter agreement, dated August 9, 2000, by Lincoln Financial Technical Institute, Inc., amending the Stockholders' Agreement.
4.5	Stockholders' Agreement, dated as of June 21, 1999, among Technical Institute, Inc., Back to School Acquisition, L.L.C., P.J. Santangelo and James Santangelo.
4.6	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.
*4.7	Registration Rights Agreement between Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C.
*5.1	Form of Opinion of Lindabury, McCormick & Estabrook, P.A. regarding legality of common stock.
10.1	Credit Agreement, dated as of February 15, 2005, among Lincoln Educational Services Corporation, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Harris Trust and Savings Bank, as Administrative Agent.
10.2	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and David F. Carney.
*10.3	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and David F. Carney.
10.4	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Lawrence E. Brown.
*10.5	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Lawrence E. Brown.
10.6	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Scott M. Shaw.
*10.7	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Scott M. Shaw.

10.8	Employment Agreement, dated as of January 3, 2005, between Lincoln Educational Services Corporation and Cesar Ribeiro.
*10.9	Amended Employment Agreement, dated as of , 2005, between Lincoln Educational Services Corporation and Cesar Ribeiro.
*10.10	Lincoln Educational Services Corporation 2005 Long Term Incentive Plan.
*10.11	Lincoln Educational Services Corporation 2005 Non Employee Directors Restricted Stock Plan.
*10.12	Lincoln Educational Services Corporation 2005 Deferred Compensation Plan.
*10.13	Lincoln Educational Services Corporation 2005 Employee Stock Purchase Plan.
10.14	Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002.
10.15	Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants.
10.16	Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors.
21.1	Subsidiaries of Registrant.
*23.1	Consent of Lindabury, McCormick & Estabrook, P.A. (included in Exhibit 5.1).
23.2	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney (included on signature page).

* To be filed by amendment.

QuickLinks

Exhibit 3.1

FILED

FEB 10 2003

STATE TREASURER

CERTIFICATE OF INCORPORATION
OF
LINCOLN EDUCATIONAL SERVICES CORPORATION

THE UNDERSIGNED, of the age of eighteen years or over, in order to form a corporation pursuant to the provisions of the New Jersey Business Corporation Act, hereby certifies as follows:

1. The name of the Corporation is LINCOLN EDUCATIONAL SERVICES CORPORATION.

2. The purpose of the Corporation is to engage in any activity within the purposes for which corporations may be organized under the New Jersey Business Corporation Act.

3. The Corporation is authorized to issue 50,000,000 shares of common stock without par value.

4. The initial registered office of the Corporation is 200 Executive Drive, Suite 340, West Orange, New Jersey 07052. The name of the Corporation's initial registered agent at that office is Alexandra Luster.

5. The number of directors shall be as specified in the Bylaws. Two persons will constitute the first board of directors; their names and addressed are as follows:

Name	Address
David Carney	200 Executive Drive, Suite 340, West Orange, New Jersey 07052
Scott Shaw	200 Executive Drive, Suite 340, West Orange, New Jersey 07052

6. The name and address of the incorporator of the Corporation is as follows:

Robert W. Anderson, Esq.
c/o Lindabury, McCormick & Estabrook, P.A.
53 Cardinal Drive, P.O. Box 2369
Westfield, New Jersey 07091

IN WITNESS WHEREOF, the undersigned has signed this Certificate of Incorporation this 7th day of February, 2003.

/s/ Robert W. Anderson
Robert W. Anderson

Exhibit 3.3

BYLAWS

OF

LINCOLN EDUCATIONAL SERVICES CORPORATION

ARTICLE I
OFFICES

1. Register Office and Agent. The registered office of the Corporation in the State of New Jersey is at 200 Executive Drive, Suite 340, West Orange, New Jersey 07052.

The registered agent of the Corporation at such office is Alexandra Luster.

2. Principal Place of Business. The principal place of business of the Corporation is 200 Executive Drive, Suite 340, West Orange, New Jersey 07052.

3. Other Places of Business. Branch or subordinate places of business or offices may be established at any time by the Board at any place or places where the Corporation is qualified to do business.

ARTICLE II
SHAREHOLDERS

1. Annual Meeting. The annual meeting of shareholders shall be held upon not less than ten nor more than sixty days written notice of the time, place, and purposes of the meeting at 10 o'clock a.m. on the 23rd day of the month of July of each year at 200 Executive Drive, Suite 340, West Orange, New Jersey or at such other time and place as shall be specified in the notice of meeting, in order to elect directors and transact such other business as shall come before the meeting. If that date is a legal holiday, the meeting shall be held at the same hour on the next succeeding business day.

2. Special Meeting. A special meeting of shareholders may be called for any purpose by the president or the Board. A special meeting shall be held upon not less than ten nor more than sixty days written notice of the time, place, and purposes of the meeting.

3. Action by Shareholders Without a Meeting. Any action required or permitted to be taken at a meeting of shareholders by any provisions of the New Jersey Business Corporation Act or of the Certificate of Incorporation or these Bylaws may be taken without a meeting if all the shareholders entitled to vote thereon consent in writing to such action being taken, or, subject to the provisions of Section 14A:5-6(2) of the New Jersey Business Corporation Act, if shareholders who would have been entitled to cast the minimum number of votes which would be necessary to authorize such action at a meeting at which all shareholders entitled to vote thereon were present and voting shall consent in writing to such action being taken. Whenever corporate action is so taken, the consents of the shareholders consenting thereto shall be filed with the minutes of proceedings of the shareholders of the Corporation.

4. Quorum. The presence at a meeting in person or by proxy of the holders of shares entitled to cast two-thirds of the votes shall constitute a quorum.

ARTICLE III
BOARD OF DIRECTORS

1. Number and Term of Office. The Board shall initially consist of the two (2) members named in the Certificate of Incorporation, and shall thereafter consist of a total of ten (10) members with such initial vacancies to be filled in accordance with Article III, Section 6 below. Each director thereafter to serve on the ten member Board shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until that director's successor shall have been elected and qualified.

2. Regular Meetings. A regular meeting of the Board shall be held without notice immediately following and at the same place as the annual shareholders' meeting for the purposes of electing officers and conducting such other business as may come before the meeting. The Board, by resolution, may provide for additional regular meetings which may be held without notice, except to the members not present at the time of the adoption of the resolution.

3. Special Meetings. A special meeting of the Board may be called at any time by the president or by one director for any purpose. Such meeting shall be held upon five (5) days notice if given orally (either by telephone or in person) or by telegraph, or by ten (10) days notice if given by depositing the notice in the United States mail, postage prepaid. Such notice shall specify the time and place of the meeting.

4. Action without Meeting. The Board may act without a meeting if, prior or subsequent to such action, each member of the Board shall consent in writing to such action. Such written consent or consents shall be filed in the minute book.

5. Quorum. Two (2) members of the entire Board shall constitute a quorum for the transaction of business.

6. Vacancies in Board of Directors. Any vacancy in the Board, including a vacancy caused by an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors, even though less than a quorum of the Board, or by a sole remaining director.

7. Declaration of Dividend. Dividends payable on the shares of the Corporation shall be paid as and when declared by a resolution adopted by the Board, by the president, or by the holder or holders of not less than two-thirds of the shares of the Corporation issued and outstanding.

ARTICLE IV
WAIVERS OF NOTICE

Any notice required by these bylaws, by the certificate of incorporation, or by the New Jersey Business Corporation Act may be waived in writing by any person entitled to vote. The waiver or waivers may be executed either before or after the event with respect to which notice is waived. Each director or shareholder attending a meeting without protesting, prior to its conclusion, the lack of proper notice shall be deemed conclusively to have waived notice of the meeting.

ARTICLE V
OFFICERS

1. Election. At its regular meeting following the annual meeting of shareholders, the Board shall elect a president, a treasurer, a secretary, and it may elect such other officers, including one or more vice presidents, executive directors, and national directors, as it shall deem necessary. One person may hold two or more offices.

2. Duties and Authority of President. The president shall be chief executive officer of the Corporation. Subject only to the authority of the Board, he shall have general charge and supervision over, and responsibility for, the business and affairs of the Corporation. Unless otherwise directed by the Board, all other officers shall be subject to the authority and supervision of the president. The president may enter into and execute in the name of the Corporation contracts or other instruments in the regular course of business or

contracts or other instruments not in the regular course of business which are authorized, either generally or specifically, by the Board. He shall have the general powers and duties of management usually vested in the office of president of a corporation.

3. Duties and Authority of Vice Presidents. The vice presidents shall perform such duties and have such authority as from time to time may be delegated to them by the president or by the Board. In the absence of the president or in the event of his death, inability, or refusal to act, the vice presidents shall perform the duties and be vested with the authority of the president.

4. Duties and Authority of Treasurer. The treasurer shall have the custody of the funds and securities of the Corporation and shall keep or cause to be kept regular books of account for the Corporation. The treasurer shall perform such other duties and possess such other powers as are incident to that office or as shall be assigned by the president or the Board.

5. Duties and Authority of Secretary. The secretary shall cause notices of all meetings to be served as prescribed in these bylaws and shall keep or cause to be kept the minutes of all meetings of the shareholders and the Board. The secretary shall have charge of the seal of the Corporation. The secretary shall perform such other duties and possess such other powers as are incident to that office or as are assigned by the president or the Board.

6. Duties and Authority of Assistant Secretary. The assistant secretary shall assist the secretary as directed from time to time by the secretary and shall perform such other duties and possess such other powers as are incident to that office or as are assigned by the president or the Board.

7. Duties and Authority of Executive Directors and National Directors. The executive directors and national directors shall perform such duties and possess such powers as are assigned by the president or the Board.

ARTICLE VI
AMENDMENTS TO AND EFFECT OF BY-LAWS; FISCAL YEAR

1. Force and Effect of Bylaws. These bylaws are subject to the provisions of the New Jersey Business Corporation Act and the Corporation's certificate of incorporation, as it may be amended from time to time. If any provision in these bylaws is inconsistent with a provision in that Act or the certificate of incorporation, the provision of that Act or the certificate of incorporation shall govern.

2. Amendments to By-laws. These bylaws may be altered, amended or repealed by the shareholders or the Board. Any bylaw adopted, amended or repealed by the shareholders may be amended or repealed by the Board, unless the resolution of the shareholders adopting such bylaw expressly reserves to the shareholders the right to amend or repeal it.

3. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January of each year.

ARTICLE VII
INDEMNIFICATION

The Corporation shall indemnify any and all persons who may serve or who have served at any time as directors or officers of the Corporation, or who at the request of the Board of Directors of the Corporation may serve or at any time have served as directors or officers of another corporation in which the Corporation at such time owned or may own shares of stock or of which it was or may be a creditor, and their respective heirs, administrators, successors, and assigns, against any and all expenses, including amounts paid upon judgments, counsel fees, and amounts paid in settlement (before or after suit is commenced), actually and necessarily incurred by such persons in connection with the defense or settlement of any claim, action, suit or proceeding in which they, or any of them, are made parties, or a party, or which may be asserted against them or any of them, by reason of being or having been directors or officers or a director or officer of the Corporation, or of such other corporation, except in relation to matters as to which any such director or officer or former director or officer or person shall be finally adjudged in any action, suit, or proceeding to be liable for his own negligence, omission or misconduct in the performance of duty. Such indemnification shall be in addition to any other rights to which those indemnified may be entitled under any law, bylaw, agreement, vote of stockholders, or otherwise.

Exhibit 4.2

STOCKHOLDERS' AGREEMENT

among

LINCOLN TECHNICAL INSTITUTE, INC.,

BACK TO SCHOOL ACQUISITION, L.L.C.,

and

FIVE MILE RIVER CAPITAL PARTNERS LLC

Dated as of September 15, 1999

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ARTICLE V

MISCELLANEOUS

STOCKHOLDERS' AGREEMENT, dated as of September 15, 1999 among LINCOLN TECHNICAL INSTITUTE, INC., a New Jersey corporation (the "Company"); BACK TO SCHOOL ACQUISITION, L.L.C., a Delaware limited liability company ("Stonington"); and FIVE MILE RIVER CAPITAL PARTNERS LLC, a Delaware limited liability company, formerly known as Hart/LTI, LLC ("FMRCP").

WHEREAS, by a Stock Option Agreement, dated June 21, 1999, between Stonington and FMRCP, Stonington granted an option to FMRCP to acquire 6,459 shares of common stock, no par value per share, of the Company (" Common Stock") held by Stonington (the "FMRCP Option"); and

WHEREAS, as a condition to the exercise of the FMRCP Option and in order to make certain agreements with respect to their respective rights and obligations as holders of Common Stock, the parties hereto have determined that it is in their best interests to enter into this Agreement;

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such specified Person.

"Agreement" or "this Agreement" means this Stockholders' Agreement, dated as of September 15, 1999, among the Company and each of the other parties signatory hereto, and all amendments hereto made in accordance with the provisions of Section 5.11.

"beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the Exchange Act.

"Board" means the Board of Directors of the Company.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

"By-Laws" means the Company's by-laws, as in effect from time to time.

"Cash Equivalents" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof; (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (" S&P") or Moody's Investors Service, Inc.; or (c) commercial paper maturing not more than one year from the date of issuance thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's Investors Service, Inc.

"Certificate of Incorporation" means the Company's Certificate of Incorporation as in effect from time to time.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" has the meaning specified in the recitals to this Agreement.

"Company" has the meaning specified in the preamble to this Agreement.

"Control" (including the terms "controlled by" and "under common control with"), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Encumbrance" means any security interest, pledge, mortgage, lien (including, without limitation, environmental and tax liens), charge, encumbrance, adverse claim, preferential arrangement or restriction of any kind, including, without limitation, any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Fair Value" means (a) as to publicly traded securities, the average of the daily closing prices or last reported sales price, as applicable, or if closing prices or last reported sales prices are not available, the average of the highest reported bid and the lowest reported asked price, for the ten (10) consecutive trading days ending on the most recent trading day prior to the date of determination, and (b) as to other assets, the fair market value of such assets determined in good faith by an independent nationally recognized investment banking firm selected by the Company and approved (which approval shall not be unreasonably withheld) by (i) FMRCP and its Permitted Transferees and (ii) Stonington and its Affiliates, by action of the majority in number of Fully Diluted Shares held by each such group, and which investment banking firm shall have provided no material services to the Company or any Stockholder within the preceding year.

"Fully Diluted Shares" means the aggregate of (a) the number of Shares issued and outstanding (other than Shares held in the treasury of the Company or held by any Subsidiary) and (b) the number of Shares issuable upon (i) the exercise of any then outstanding options, warrants or similar instruments (other than such instruments held by the Company or any Subsidiary) and (ii) the exercise of any conversion or exchange rights with respect to any outstanding securities or instruments (other than such securities or instruments held by the Company or any Subsidiary).

"FMRCP" has the meaning specified in the preamble to this Agreement.

"FMRCP Option" has the meaning specified in the preamble to this Agreement.

"Marketable Securities" means securities that are (a) (i) securities of or other interests in any Person that are traded on a national securities exchange, reported on the Nasdaq Stock Market System or otherwise actively traded over-the-counter or (ii) debt securities of an issuer that has debt or equity securities that are so traded or so reported on and which a nationally recognized securities firm has agreed to make a market in, and (b) not subject to restrictions on transfer as a result of any applicable contractual provisions or the provisions of the Securities Act or, if subject to such restrictions under the Securities Act, are also subject to registration rights reasonably acceptable to Stonington.

"Other Stockholder" means any of FMRCP and any of its Permitted Transferees.

"Permitted Transferee" means, in the case of FMRCP, (a) any of their Affiliates and (b) any Person with respect to which the Stockholders agree that they have no objection if a Sale of Shares is made to such Person.

"Person" means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

"Public Company" means that, as of the date of determination, the shares of Common Stock that have been sold in Public Offerings shall equal not less than 10% of the Fully Diluted Shares.

"Public Offering" means an underwritten public offering of equity securities of the Company pursuant to an effective registration statement under the Securities Act.

"Registrable Shares" means the Shares, including the Shares issued or issuable pursuant to the FMRCP Option and any securities issued or issuable with respect to any Shares by way of conversion, exchange, replacement, stock dividend, stock split or other distribution or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. For purposes of this Agreement, any Registrable Shares shall cease to be Registrable Shares when (a) a registration statement covering such Registrable Shares has been declared effective and such Registrable Shares have been disposed of pursuant to such effective registration statement, (b) such Registrable Shares are sold by a Person in a transaction in which the rights under the provisions of this Agreement are not assigned or (c) such Registrable Shares are sold pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the Securities Act without registration under the Securities Act.

"Restricted Shares" means all Shares other than (a) Shares that have been registered under a registration statement pursuant to the Securities Act; (b) Shares with respect to which a Sale has been made in reliance upon, and in accordance with, Rule 144; or (c) Shares with respect to which the holder thereof shall have delivered to the Company either (i) a written opinion, in form and substance reasonably satisfactory to the Company, of counsel, who shall be reasonably satisfactory to the Company, or (ii) a "no action" letter from the Commission, to the effect that subsequent transfers of such Shares may be effected without registration under the Securities Act.

"Rule 144" means Rule 144 (or any successor provision) under the Securities Act.

"Rule 144 Transaction" means any Sale of Shares made in reliance upon, and in accordance with, Rule 144.

"Sale" means any sale, assignment, transfer, distribution or other disposition of Shares or of a participation or other right therein, whether voluntarily or by operation of law.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Share" means any share of Common Stock.

"Stockholder" means each Person (other than the Company) who or which shall be a party to this Agreement, whether in connection with the execution and delivery hereof as of the date hereof, pursuant to Section 3.06 or otherwise, so long as such Person shall own, beneficially or of record, any Shares.

"Subsidiary" or "Subsidiaries" of any Person means any corporation, partnership, joint venture, association or other entity, all of the capital stock or other similar equity interests of which, are owned beneficially and of record by such Person directly or indirectly through one or more intermediaries.

"Stonington" has the meaning specified in the preamble to this Agreement.

"Third Party" means, with respect to any Stockholder, any Person, other than (i) the Company, (ii) any Subsidiary of the Company or (iii) any Affiliate of such Stockholder or, in the case of FMRCP, any Person described in clause (a) of the definition of Permitted Transferee.

ARTICLE II

CERTAIN AGREEMENTS

SECTION 2.01. Voting. FMRCP hereby agrees to vote all Shares owned or held of record by it as directed by Stonington at any annual or special stockholders' meeting, or to take all actions by written consent in lieu of any such meeting as directed by Stonington. In particular:

(i) Board. FMRCP hereby agrees to vote all Shares owned or held of record by it in favor of P.J. Santangelo (or his designee) whenever nominated to be a director of the Company, so long as Stonington shall confirm to FMRCP that, at the time of the proposed election, P.J. Santangelo and James Santangelo collectively own Shares constituting at least 5% of the outstanding Shares.

(ii) Certificate of Incorporation and By-Laws. For such time as P.J. Santangelo and James Santangelo and their Permitted Transferees hold any Shares, FMRCP agrees for the benefit of P.J. Santangelo and James Santangelo, not to vote in favor of any amendments to the

Certificate of Incorporation or the By-Laws that in any way would affect P.J. Santangelo or James Santangelo adversely in a manner different from the other holders of Common Stock.

FMRCP hereby agrees that P.J. Santangelo and James Santangelo shall be expected beneficiaries of this Section 2.01.

SECTION 2.02. Company Financial Statements. For such time as FMRCP and its Permitted Transferees (other than the Persons described in clause (b) of the definition of Permitted Transferee) hold any Shares, the Company agrees to provide each of them with (i) unaudited quarterly financial statements of the Company within 45 days of the end of each fiscal quarter of the Company and (ii) audited financial statements of the Company within 90 days of the end of each fiscal year of the Company.

ARTICLE III

RESTRICTIONS ON TRANSFER

SECTION 3.01. General Restriction. The Other Stockholders, agree that they will not, directly or indirectly, make or solicit any Sale of, or create, incur, solicit or assume any Encumbrance with respect to, any Share, except in compliance with the Securities Act and this Agreement. Notwithstanding the foregoing, FMRCP and its Permitted Transferees may make or solicit sales to Permitted Transferees, subject to compliance with this Article III.

SECTION 3.02. Legends. (a) The Company shall affix to each certificate evidencing Shares of the Other Stockholders a legend in substantially the following form:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE ISSUER UNLESS SUCH TRANSFER IS MADE IN CONNECTION WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH ACT DOES NOT APPLY.

THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN A

STOCKHOLDERS' AGREEMENT, DATED AS OF SEPTEMBER 15, 1999, AS IT MAY THEREAFTER BE AMENDED, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE ISSUER. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE ISSUER UNLESS AND UNTIL SUCH RESTRICTIONS SHALL HAVE BEEN COMPLIED WITH.

(b) The Company shall affix to each certificate evidencing Shares of any Stockholder a legend in substantially the following form:

THE HOLDER OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE IS ENTITLED TO CERTAIN RIGHTS AND SUBJECT TO CERTAIN OBLIGATIONS AS SET FORTH IN A STOCKHOLDERS' AGREEMENT, DATED AS OF SEPTEMBER 15, 1999, AS IT MAY THEREAFTER BE AMENDED, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE ISSUER.

(c) In the event that any Shares shall cease to be Restricted Shares, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the first paragraph of the legend required by Section 3.02(a) endorsed thereon; provided, however, that such holder shall furnish the Company or its transfer agent such certificates, legal opinions or other information as the Company or its transfer agent may reasonably require to confirm that the legend is not required on such certificate. In the event that any Shares shall cease to be subject to the restrictions on transfer set forth in this Agreement, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the second paragraph of the legend required by Section 3.02(a). In the event that any Shares shall cease to be entitled to any rights and subject to any obligations set forth in this Agreement, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the legend required by Section 3.02(b).

SECTION 3.03. Certain Restrictions on Transfer. (a) So long as Stonington and/or its Affiliates own at least twenty percent (20%) of the then outstanding Shares, each Other Stockholder agrees that such Other Stockholder will not, directly or indirectly, make any Sale of, or create, incur, or assume any Encumbrance with respect to, any Shares held by such Other Stockholder other than any Sale or Encumbrance to a Permitted Transferee (other than the Persons described in clause (b) of the definition of Permitted Transferee), without first granting Stonington and/or its Affiliates, the option to acquire those Shares in accordance with this Section 3.03.

(b) If an Other Stockholder receives a bona fide offer that such Other Stockholder desires to accept from a Third Party with respect to the Sale of such Other Stockholder's Shares, such

Other Stockholder shall give to Stonington written notice (the " Transfer Notice") of such proposed Sale, specifying the proposed transferee, the number of Shares proposed to be disposed of, the proposed purchase price to be received in exchange therefor, and the other material terms of the proposed Sale. Delivery of the Transfer Notice to Stonington shall constitute an irrevocable offer to sell such Shares to Stonington on the terms and conditions set forth therein; provided, however, that if the proposed purchase price set out in the Transfer Notice is other than all cash, such Other Stockholder shall accept an amount of cash equivalent to the Fair Value of such non-cash consideration, such Fair Value to be determined at the cost of the Company.

(c) Stonington shall have the right, exercisable by written notice given to such Other Stockholder within ten (10) Business Days after receipt of such Transfer Notice, to purchase (or to cause an Affiliate of Stonington to purchase) all, but not less than all, of the Shares specified in such Transfer Notice at the purchase price and on the other terms set forth therein.

(d) If Stonington exercises its right of first refusal pursuant to this Section 3.03, the closing of the purchase of the Shares with respect to which such right has been exercised shall take place within five Business Days after Stonington gives notice of such exercise. If Stonington does not exercise its right of first refusal pursuant to this Section 3.03 within the time specified for such exercise, the Other Stockholder shall be free during the 90-day period following the expiration of such time to sell the Shares specified in such Transfer Notice to the Person specified therein for the consideration (or at any price in excess thereof) and on substantially the same terms (or on other terms more favorable to the Other Stockholder) specified therein.

SECTION 3.04. Rights to Participate in Certain Sales. (a) (i) Neither Stonington nor any of its Affiliates shall, in one or more transactions, directly or indirectly, make any Sale of Shares held by them constituting more than forty-five percent (45%) of the then outstanding Shares to any Third Party or Third Parties, unless the terms and conditions of such Sale shall include an offer to include, at the option of the Other Stockholders, in such Sale to the Third Party or Third Parties, the number of Shares then owned by such Other Stockholders, as determined by Section 3.04(a)(iii).

(ii) If Stonington and/or any of its Affiliates receives from a Third Party or Third Parties a bona fide offer or offers to purchase or otherwise acquire (for purposes of this Section an "Offer") any Shares held by Stonington or such Affiliates (for purposes of this Section 3.04, the "Offered Shares") that, together with Shares previously disposed of by Stonington or any of such Affiliates to Third Parties aggregate more than forty-five percent (45%) of the then outstanding Shares (such Shares, together with the Offered Shares, for purposes of this Section 3.04, the "Tag-Along Shares"), and Stonington and/or such Affiliates intends to sell such Offered Shares to such Third Party or Third Parties, then Stonington and such Affiliate (for purposes of this Section 3.04, the "Prospective Sellers") shall jointly provide written notice (for purposes of this Section 3.04, the "Offer Notice") of such Offer to each of the Other Stockholders not later than thirty (30) days prior to the consummation

of the Sale contemplated by the Offer. The Offer Notice shall identify the Offered Shares, the price offered for such Offered Shares (for purposes of this Section 3.04, the "Offer Price"), all other material terms and conditions of the Offer and, in the case of an Offer in which the consideration payable for Offered Shares consists in whole or in part of consideration other than cash, such information relating to such other consideration as may be reasonably necessary to ascertain the value of such other consideration.

(iii) Each of the Other Stockholders shall have the right and option, for the period of ten (10) days after the date the Offer Notice is given (for purposes of this Section 3.04, the "Notice Period"), to notify the Prospective Sellers of such Other Stockholder's interest in selling or otherwise disposing of up to the Pro Rata Portion of such Other Stockholder's Shares pursuant to the Offer. For purposes of this subsection 3.04, "Pro Rata Portion" means, with respect to each Other Stockholder, a number of Fully Diluted Shares equal to the product of (x) the total number of Fully Diluted Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Tag-Along Shares, and the denominator of which shall be the total number of Shares owned by the Prospective Sellers on the date of the first sale of Tag-Along Shares.

(iv) Each Other Stockholder desiring to sell such Other Stockholder's Pro Rata Portion of Shares pursuant to this Section 3.04 shall, prior to the expiration of the Notice Period, provide the Prospective Sellers with a written notice specifying the number of Shares as to which such Other Stockholder has an interest in selling or otherwise disposing of pursuant to the Offer (for purposes of this Section 3.04, a "Notice of Interest"), and shall deliver to the Prospective Sellers, to be held in trust, (A) the certificate or certificates evidencing the Shares to be sold or otherwise disposed of by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to the Prospective Sellers executed by such Other Stockholder; (B) an instrument of assignment reasonably satisfactory to the Prospective Sellers assigning, as of the consummation of the Sale to the Third Party or Third Parties, all of such Stockholder's rights under this Agreement with respect to the Shares to be sold or otherwise disposed of (to the extent assignable); (C) a special irrevocable power-of-attorney authorizing the Prospective Sellers, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer (at a price equal to the Offer Price) and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that the Prospective Sellers shall not have the authority to incur or create liabilities or to give representations or warranties on behalf of such Other Stockholder; and (D) wire transfer instruction for payment of the purchase price (if cash) for the purchase of the Other Stockholder's Shares. Delivery of such certificate or certificates evidencing the Shares to be sold, the instrument of assignment, the special irrevocable power of attorney authorizing the Prospective Sellers and wire transfer instructions, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares shall constitute an irrevocable election by such Other Stockholder to authorize and permit the Prospective Sellers to sell such Shares, on behalf of such Other Stockholder, pursuant to the Offer. The Prospective Sellers shall cause the Third Party to whom or which the Shares

of the Other Stockholders are being sold or otherwise disposed of to deliver the appropriate purchase price for the purchase of such Shares to the Other Stockholders, against delivery of the Shares being sold or otherwise disposed of.

(v) Each Stockholder shall bear such Stockholder's own expenses in connection with any such Sale pursuant to this Section 3.04.

(vi) If at the end of the Notice Period any Other Stockholder shall not have given a Notice of Interest (and delivered all other required documents) with respect to some or all of such Other Stockholder's Shares, such Other Stockholder will be deemed to have waived all of such Other Stockholder's rights under this Section 3.04 with respect to the portion of such Other Stockholder's Shares for which a Notice of Interest shall not have been given. If, at the end of the 180-day period following the giving of the Offer Notice, the Prospective Sellers shall not have completed the Sale of all the Offered Shares and the Shares with respect to which any Other Stockholders shall have given Notices of Interest pursuant to this Section 3.04, the Prospective Sellers shall return to such Other Stockholders all certificates evidencing the unsold Shares that such Other Stockholders delivered for Sale pursuant to this Section 3.04 and such Other Stockholders' related instruments of assignment and powers-of-attorney and the Prospective Sellers shall not consummate the Sale with such Third Party or Third Parties without again complying with the terms and procedures set forth in this Section 3.04, including providing to the Other Stockholders another Offer Notice.

(vii) Except as expressly provided in this Section 3.04, no Prospective Seller shall have any obligation to any Other Stockholder with respect to the Sale of any Shares owned by any Other Stockholder in connection with this Section 3.04. Anything herein to the contrary notwithstanding and irrespective of whether any Notice of Interest shall have been given, no Prospective Seller shall have any obligation to any Other Stockholder to sell or otherwise dispose of any Offered Shares pursuant to this Section 3.04 as a result of any decision by such Prospective Seller not to accept or consummate any Offer or Sale with respect to the Offered Shares (it being understood that any and all such decisions shall be made by such Prospective Seller in its sole discretion). Except as otherwise permitted herein, no Other Stockholder shall be entitled to sell or otherwise dispose of Shares directly to any Third Party or Third Parties pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 3.04).

(b) Anything in this Section 3.04 to the contrary notwithstanding, in the event that Stonington and/or its Affiliates shall exercise their rights under Section 3.05, the Other Stockholders shall thereafter have no right pursuant to this Section 3.04 to participate in any Sale pursuant to this Section 3.04 with respect to the Sale the subject of Section 3.05. Nothing in this Section 3.04 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

SECTION 3.05. "Drag-Along" Rights. (a) If Stonington and/or any of its Affiliates shall, in any transaction or series of related transactions, directly or indirectly, propose to make a Sale of Shares constituting more than 50% of the Fully Diluted Shares (for purposes of this Section 3.05, the "Controlling Shares") to a Third Party or Third Parties (for purposes of this Section 3.05, an " Offer"), Stonington and/or such Affiliates may, at their option, require each of the Other Stockholders to sell the Pro Rata Portion of such Stockholder's Shares to such Third Party or Third Parties for the same consideration per Share and otherwise upon the same terms and conditions upon which Stonington and/or such Affiliates sell their Shares. For purposes of this Section 3.05, " Pro Rata Portion" means, with respect to each Other Stockholder, a number of Shares equal to the product of (x) the total number of Fully Diluted Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Shares proposed to be sold by Stonington and/or such Affiliates, and the denominator of which shall be the total number of Shares then owned by Stonington and/or its Affiliates.

(b) (i) Stonington and/or such Affiliates shall provide a written notice (for purposes of this Section 3.05, the "Offer Notice") of such Offer to each of the Other Stockholders not later than the fifteenth Business Day prior to the consummation of the Sale contemplated by the Offer. The Offer Notice shall contain written notice of the exercise of the "drag-along" rights of Stonington and/or its Affiliates pursuant to Section 3.05(a), setting forth the consideration per Share to be paid by the Third Party or Third Parties and the other material terms and conditions of the Offer. Within ten (10) Business Days following the date the Offer Notice is given, each of the Other Stockholders shall deliver to Stonington and/or such Affiliates, to be held in trust, (A) the certificate or certificates evidencing the Pro Rata Portion of Shares owned or held by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to Stonington and/or such Affiliate executed by such Other Stockholder, (B) a special irrevocable power-of-attorney authorizing Stonington and/or such Affiliate, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that Stonington and/or such Affiliate shall not have the authority to incur or create liabilities or to give representations and warranties on behalf of such Other Stockholder, and (C) wire transfer instructions for payment of the purchase price of the Other Stockholder's Shares; provided that no Other Stockholder shall have any liability to any purchaser of the Shares pursuant to the Offer in excess of the aggregate proceeds received by such Other Stockholder in exchange for such Stockholder's Shares or in a manner that is disproportionate or different from Stonington and its Affiliates. Stonington and/or such Affiliate shall cause the Third Party to whom or which the Shares of the Stockholders are being sold or otherwise disposed to deliver the appropriate amount of immediately available funds for the purchase of such Shares to the Other Stockholders pursuant to the wire transfer instructions described in clause (C) above. If in connection with such Sale, Stonington and/or such Affiliate are to receive consideration other than cash, Cash Equivalents or Marketable Securities, each Other Stockholder shall have the right to elect to receive in lieu thereof cash or Cash Equivalents equal to the Fair Value of the

consideration otherwise payable to such Other Stockholder. Such Other Stockholder shall make such election in a written notice to Stonington and/or such Affiliate within ten (10) Business Days following the date the Offer Notice is provided to such Other Stockholder.

(ii) Each Stockholder shall bear such Stockholder's own expenses incurred in connection with a Sale pursuant to this Section 3.05.

(iii) If, at the end of the 180-day period following the giving of the Offer Notice, Stonington and/or its Affiliates shall not have completed the Sale of all the Controlling Shares and the Other Stockholders' Shares delivered pursuant to Section 3.05(b)(i), Stonington and/or its Affiliates shall return to each of the Other Stockholders all certificates evidencing unsold Shares and related powers-of-attorney that such Other Stockholder delivered pursuant to this Section 3.05.

(iv) Except as expressly provided in this Section 3.05, Stonington and its Affiliates shall have no obligation to any Other Stockholder with respect to the Sale of any Shares owned by any Other Stockholder in connection with this Section 3.05. Anything herein to the contrary notwithstanding, Stonington and/or its Affiliates shall have no obligation to any Other Stockholder to sell or otherwise dispose of any Controlling Shares pursuant to this Section 3.05 as a result of any decision by Stonington and/or its Affiliates not to accept or consummate any Offer or Sale with respect to the Controlling Shares (it being understood that any and all such decisions shall be made by Stonington and/or its Affiliates in their sole discretion). No Other Stockholder shall be entitled to make any Sale of Shares directly to any Third Party pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 3.05). Nothing in this Section 3.05 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

SECTION 3.06. Certain Persons to Execute Agreement. (a) Each Stockholder agrees that it will not directly or indirectly make any Sale of, or create, incur or assume any Encumbrance with respect to, any Shares held by such Stockholder, unless, prior to the consummation of any such Sale or the creation, incurrence or assumption of any such Encumbrance, the Person to whom or which such Sale is proposed to be made or the Person in whose favor such Encumbrance is proposed to be created, incurred or assumed (for purposes of this Section 3.06, a "Prospective Transferee") (i) executes and delivers to the Company an agreement, in form and substance reasonably satisfactory to the Company, whereby such Prospective Transferee confirms that, with respect to the Shares that are the subject of such Sale or Encumbrance, it shall be deemed to be a "Stockholder" for the purposes of this Agreement and agrees to be bound by all the terms of this Agreement and (ii) delivers to the Company a written opinion of counsel, satisfactory in form and substance to the Company, to the effect that the agreement referred to above that is delivered by such Prospective

Transferee is a legal, valid and binding obligation of such Prospective Transferee enforceable against such Prospective Transferee in accordance with its terms. Upon the execution and delivery by such Prospective Transferee of the agreement referred to in clause (i) of the next preceding sentence and, the delivery of the opinion of counsel referred to in clause (ii) of the next preceding sentence, such

Prospective Transferee shall be deemed a "Stockholder" for the purposes of this Agreement, and shall have the rights and be subject to the obligations of a Stockholder hereunder with respect to the Shares held by such Prospective Transferee or in respect of which such Encumbrance shall have been created, incurred or assumed.

(b) Anything in this Section 3.06 to the contrary notwithstanding, the provisions of this Section 3.06 will not be applicable to (i) any Sale of Shares pursuant to a Public Offering or (ii) any Sale of Shares in a Rule 144 Transaction so long as immediately prior to, and immediately after the consummation of, such Rule 144 Transaction the Company is a Public Company.

SECTION 3.07. Improper Sale or Encumbrance. Any attempt by any Stockholder to make any Sale of, or create, incur or assume any Encumbrance with respect to, any Shares not in compliance with this Agreement shall be null and void and the Company shall not give any effect in the Company's stock records to such attempted Sale or Encumbrance.

ARTICLE IV

REGISTRATION RIGHTS

SECTION 4.01. Incidental Registration. If at any time the Company determines that it shall file a registration statement under the Securities Act (other than a registration statement on a Form S-4 or S-8 or filed in connection with an exchange offer or an offering of securities solely to the Company's employee benefit plans) on any form that would also permit the registration of the Registrable Shares and such filing is to be on behalf of the Company and/or on behalf of selling holders of its securities for the general registration of its Common Stock to be sold for cash, the Company shall each such time promptly give each Other Stockholder written notice of such determination setting forth the date on which the Company proposes to file such registration statement, which date shall be no earlier than thirty (30) days from the date of such notice, and advising each Other Stockholder of its right to have such Other Stockholder's Registrable Shares included in such registration; provided that the Other Stockholders shall not have any right to have their Registrable Shares included in the initial public offering of the Company if no other Stockholder has its Registrable Shares so included. Upon the written request of any Other Stockholder received by the Company no later than fifteen (15) days after the date of the Company's notice, the Company shall use all reasonable efforts to cause to be registered under the Securities Act all of the Registrable Shares that each Other Stockholder has so

requested to be registered. If, in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Stockholders), the total amount of such securities to be so registered, including such Registrable Shares, will exceed the maximum amount of the Company's securities which can be marketed (i) at a price reasonably related to the then current market value of such securities, or (ii) without otherwise materially and adversely affecting the entire offering, then the Company shall be entitled to reduce the number of Registrable Shares to be sold in the offering by the Other Stockholders, and any other stockholders of the Company exercising incidental registrations rights similar to those set forth herein, to that number which in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Other Stockholders) would permit all such securities (including Shares held by any other stockholder of the Company who proposes to exercise such incidental registration rights) to be so marketed. Such reduction shall be allocated among the Other Stockholders in proportion (as nearly as practicable) to the amount of Registrable Shares owned by each such Other Stockholder and the number of Shares owned by any other stockholders of the Company which are sought to be included in the registration statement by such other stockholders of the Company, all measured at the time of filing the registration statement.

SECTION 4.02. Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.01 that the Other Stockholders shall furnish to the Company such information regarding themselves, the Registrable Shares held by them, and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

SECTION 4.03. Expenses of Registration. All expenses incurred in connection with each registration pursuant to Section 4.01, excluding underwriters' discounts and commissions, but including without limitation all registration, filing and qualification fees, word processing, duplicating, printers' and accounting fees (including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance), fees of the National Association of Securities Dealers, Inc. or listing fees, messenger and delivery expenses, all fees and expenses of complying with state securities or blue sky laws, fees and disbursements of counsel for the Company, and the fees and disbursements of one counsel for the selling Other Stockholders (which counsel shall be selected by the Other Stockholders holding a majority in interest of the Registrable Shares being registered), shall be paid by the Company. The Other Stockholders shall bear and pay the underwriting commissions and discounts applicable to securities offered for their account in connection with any registrations, filings and qualifications made pursuant to this Agreement.

SECTION 4.04. Underwriting Requirements. In connection with any underwritten offering, the Company shall not be required under Section 4.01 to include Registrable Shares in such

underwritten offering unless the Other Stockholders holding such Registrable Shares accept the terms of the underwriting of such offering that have been reasonably agreed upon between the Company and the underwriters selected by the Company and which are customary with respect to such an offering and not inconsistent with this Article IV. No such Other Stockholder shall be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Other Stockholder, such Other Stockholders' Registrable Shares and such Stockholders' intended method of distribution customarily given to underwriters and any other representation required by law.

SECTION 4.05. Registration Procedures. If and whenever the Company is required by the provisions of Section 4.01 to effect the registration of any Registrable Shares under the Securities Act, the Company shall, as expeditiously as possible:

(a) furnish to each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in such registration statement filed under Rule 424 under the Securities Act, and such other documents, as such Other Stockholder and underwriter may reasonably request in order to facilitate the public sale or other disposition of such Registrable Shares;

(b) use all reasonable efforts to register or qualify all Registrable Shares covered by such registration statement under such other securities laws or blue sky laws of such jurisdictions as any Other Stockholder thereof and any underwriter thereof shall reasonably request; and

(c) notify each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon the Company's discovery that, or upon the happening of any event of which the Company has knowledge as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such Other Stockholder or such underwriter promptly prepare and furnish to such Other Stockholder or such underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

SECTION 4.06. Rule 144 Information. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Shares to the public without registration, at all times after ninety (90) days after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(ii) use its reasonable efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) furnish to each Other Stockholder holding Registrable Shares forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of such Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such Other Stockholder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Other Stockholder to sell any Registrable Shares without registration.

SECTION 4.07. Indemnification. In the event any Registrable Shares are included in a registration statement under Section 4.01:

(a) The Company shall indemnify and hold harmless each Other Stockholder, such Other Stockholder's managers, directors and officers, each Person who participates in the offering of such Registrable Shares, including underwriters (as defined in the Securities Act), and each Person, if any, who controls such Stockholder or participating Person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which they may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder, and shall reimburse each such Other Stockholder, such Other Stockholder's managers, directors and officers, such participating person or controlling person for any legal or other expenses reasonably incurred by them (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual

conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); provided further that the Company shall not be liable to any Other Stockholder, such Other Stockholder's managers, directors and officers, participating person or controlling person in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in connection with such registration statement, preliminary prospectus, final prospectus or amendments or supplements thereto, in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person. Such indemnity shall remain in full force regardless of any investigation made by or on behalf of any such Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Other Stockholder.

(b) Each Other Stockholder joining in a registration severally and not jointly shall indemnify and hold harmless the Company, each of its directors and officers, each person, if any, who controls the Company within the meaning of the Securities Act, and each agent and any underwriter for the Company (within the meaning of the Securities Act) against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, controlling person, agent or underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, or amendments or supplements thereto, in reliance upon and in conformity with written information furnished by or on behalf of such Other Stockholder expressly for use in connection with such registration; and each such Other Stockholder shall reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, agent or underwriter (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability

or action if such settlement is effected without the consent of such Other Stockholder (which consent shall not be unreasonably withheld), and provided further that the liability of each Other Stockholder hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the net proceeds from the sale of the Shares sold by such Other

Stockholder under such registration statement bears to the total net proceeds from the sale of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Other Stockholder from the sale of Registrable Securities covered by such registration statement.

(c) Promptly after receipt by an indemnified party under this Section 4.06 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 4.06, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party; provided, however, that an indemnified party shall have the right to retain its own counsel, with all reasonable fees and expenses thereof to be paid by such indemnified party, and to be apprised of all progress in any proceeding the defense of which has been assumed by the indemnifying party. The failure to notify an indemnifying party promptly of the commencement of any such action, if and to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 4.07, but the omission so to notify the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 4.07.

(d) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages or liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.07(d) were determined by pro rata allocation or by any other method of allocation

which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

ARTICLE V

MISCELLANEOUS

SECTION 5.01. Termination. Unless otherwise expressly provided herein, the obligations of the parties hereto shall terminate on the date upon which the Other Stockholders or their Permitted Transferees cease to own any Shares.

SECTION 5.02. Conflict with Certificate of Incorporation or By-Laws. In the event any provision of this Agreement conflicts with any provision of the Certificate of Incorporation or the By-Laws, the terms of this Agreement shall control, and each Stockholder shall vote all Shares which such Stockholder holds of record, and shall take all actions necessary, to ensure that at all times the Certificate of Incorporation and the By-Laws do not conflict with any provision of this Agreement.

SECTION 5.03. Expenses. Except as expressly set forth herein, costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Person incurring such costs and expenses.

SECTION 5.04. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, by telecopy or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 5.04):

(a) if to FMRCP:

Five Mile River Capital Partners LLC
131 Rowayton Avenue
Rowayton, CT 06851
Telecopy: (203) 857-6051
Attention: Steven W. Hart

with a copy to:

Finn Dixon & Herling LLP
One Landmark Square
Stamford, CT 06901
Telecopy: (203) 348-5777
Attention: Charles J. Downey III, Esq.

(b) if to the Company:

Lincoln Technical Institute, Inc.
200 Executive Drive
West Orange, NJ 07052
Telecopy: (973) 243-0841
Attention: President

with a copy to:

Stonington Partners, Inc.
767 Fifth Avenue, 48th Floor
New York, NY 10153
Telecopy: (212) 339-8585
Attention: James J. Burke, Jr.

(c) if to Stonington:

c/o Stonington Partners, Inc.
767 Fifth Avenue, 48 Floor
New York, NY 10153
Telecopy: (212) 339-8585
Attention: James J. Burke, Jr.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, NY 10022
Telecopy: (212) 848-7179
Attention: Clare O'Brien, Esq.

SECTION 5.05. Public Announcements. Unless otherwise required by applicable law, no party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party, and the parties shall cooperate as to the timing and contents of any such press release or public announcement.

SECTION 5.06. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 5.07. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law, governmental regulation or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

SECTION 5.08. Entire Agreement. This Agreement and the agreements referred to herein constitute the entire agreement of the parties hereto with respect to the subject matter hereof and

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supersedes all prior agreements and undertakings, both written and oral, between the Company, Stonington and FMRCP with respect to the subject matter hereof and thereof.

SECTION 5.09. Assignment. Except as expressly provided herein, this Agreement shall not be assigned without the express written consent of each of the Company, Stonington and FMRCP (which consent may be granted or withheld in the sole discretion of each of the Company, Stonington and FMRCP).

SECTION 5.10. No Third Party Beneficiaries. Except as set forth in Sections 2.01 and 4.07, this Agreement shall be binding upon and inure solely to the benefit of the parties hereto, their successors and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

SECTION 5.11. Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, each of the parties.

SECTION 5.12. Governing Law. This Agreement shall be governed by the laws of the State of New York. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined in any New York state or federal court sitting in The City of New York, and the parties hereto hereby consent to the jurisdiction of such courts in any such action or proceeding.

SECTION 5.13. Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 5.14. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

SECTION 5.15. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the Company, Stonington or FMRCP in the negotiation, administration, performance and enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written, by their respective authorized signatories thereunto duly authorized.

LINCOLN TECHNICAL INSTITUTE, INC.

By ______________________________
Name:
Title:

BACK TO SCHOOL ACQUISITION, L.L.C.

By ______________________________
Name:
Title:

FIVE MILE RIVER CAPITAL PARTNERS LLC

By: Hart Capital LLC, its manager

By ______________________________
Name: Steven W. Hart
Title: Authorized Person

Exhibit 4.3

Back to School Acquisition, L.L.C.
767 Fifth Avenue
New York, New York 10153

August 9, 2000

VIA TELECOPIER
AND FIRST CLASS MAIL

Hart Capital LLC
131 Rowayton Avenue
Rowayton, Connecticut 06853
Attention: Steven W. Hart

Re: Stockholders' Agreement

Gentlemen:

In the event that Hart Capital LLC or any of its affiliates or any investment vehicle sponsored by it (the "Purchaser") elects to exercise the option to purchase any or all of the shares of Lincoln Technical Institute, Inc. ("LTI") currently owned by P.J. Santangelo and James Santangelo, Back to School Acquisition LLC ("Stonington") hereby agrees that, effective upon the exercise of such option, Stonington and its affiliates hereby waive their respective rights of first refusal with respect to such shares pursuant to Section 3.03 of the stockholders' agreement among LTI, Stonington, P.J. Santangelo and James Santangelo and hereby consent to the transfer of such shares to the Purchaser, *provided* that the Purchaser agrees to be bound by the terms of such stockholders' agreement.

Stonington recognizes that, in the event such option to purchase the Santangelo shares is exercised by Hart Capital for or on behalf of Five Mile River Capital Partners LLC ("FMRCP"), it will result in the same entity owning shares of LTI that are subject to two different stockholders' agreements (*i.e.,* one of which covers the shares currently owned by FMRCP and the other of which covers the shares currently owned by P.J. and James Santangelo). Accordingly, Stonington agrees that, effective upon the purchase of the Santangelo shares by FMRCP, the stockholders' agreement covering the shares currently owned by FMRCP will be deemed to cover all of the shares owned by FMRCP, and the Santangelo stockholders' agreement will be deemed no longer effective.

Stonington also hereby agrees that, effective upon the purchase of the Santangelo shares by FMRCP, the FMRCP stockholders' agreement shall be deemed amended to incorporate the following provisions of the Santangelo stockholders' agreement: (A) Section 2.01(a), (b), (c) and (e), except that the words "P J. Santangelo" shall be changed to "Steven W. Hart," and the words

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"Initial Stockholders" shall be changed to "Other Stockholders," (B) Section 2.03, (C) the definition of "New Securities" contained in Section 1.01 and (D) Section 2.07, except that the words "Initial Stockholders" shall be changed to "Other Stockholders."

Very truly yours,

Back to School Acquisition LLC

By: /s/ Alexis P. Michas
Name: Alexis P. Michas
Title: Vice President

The foregoing is hereby acknowledged and agreed to by Lincoln Technical Institute, Inc.

By: /s/ David F. Carney
Name: David F. Carney
Title: Chairman & CEO

***LINCOLN** TECHNICAL INSTITUTE, INC. 200 EXECUTIVE DRIVE, SUITE 340 • WEST ORANGE, NEW JERSEY 07052*

CORPORATE OFFICE
973 736 9340
FAX: 973 736 1750

August 9, 2000

VIA TELECOPIER
AND FIRST CLASS MAIL

Hart Capital LLC
131 Rowayton Avenue
Rowayton, Connecticut 06853
Attn: Steven W. Hart

Re: Option to Purchase Shares

Gentlemen:

As you are aware, Lincoln Technical Institute, a New Jersey corporation (the "Company"), intends to sell up to 75,726 additional shares of its common stock to its four existing stockholders, on a pro rata basis, at a price of $309.65 per share. In connection with such proposed sale, the Company has given P.J. Santangelo and James Santangelo the right to purchase up to 5,918 shares and 1,655 shares, respectively, of the Company's common stock (the "Additional Shares").

In accordance with our discussions with you, the Company and its majority stockholder, Back to School Acquisition, LLC ("Stonington"), have agreed that, to the extent P.J. Santangelo and James Santangelo do not elect to exercise their respective rights to purchase the Additional Shares offered by the Company, you, or any affiliate of yours or any investment vehicle sponsored by you, may purchase any or all of such Additional Shares not purchased by them at a price of $309.65 per share.

The Company will promptly notify you in writing if either or both P.J. Santangelo and James Santangelo do not elect to exercise their respective rights to purchase the Additional Shares, or if either or both elect to exercise their respective rights with respect to less than all of the Additional Shares (the "Offer Notice"). If you intend to purchase any or all of such Additional Shares on the above terms, you must so notify the Company, within ten (10) business days after receiving the Offer Notice, by delivery, in person, by courier service, by telecopy or by registered mail or certified mail (postage prepaid, return receipt requested), of a written notice to the Company at:

Lincoln Technical Institute, Inc.
200 Executive Drive, Suite 340
West Orange, NJ 07052

If you wish to purchase Additional Shares pursuant to this letter, you must consummate said purchase of Additional Shares on or before October 31, 2000.

In addition, the Company understands that Hart Capital has been granted an option to purchase the shares of the Company currently owned by P.J. and James Santangelo and that, in the event the option is exercised by Hart Capital for or on behalf of Five Mile River Capital Partners LLC ("FMRCP"), it will result in the same entity owning shares of the Company that are subject to two different stockholders' agreements (*i.e.* one of which covers the shares currently owned by FMRCP and the other of which covers the shares currently owned by P.J. and James Santangelo). Accordingly, the Company agrees that, effective upon the purchase of the Santangelo shares by FMRCP, the stockholders' agreement covering the shares currently owned by FMRCP will be deemed to cover all shares owned by FMRCP, and the Santangelo stockholders' agreement will be deemed no longer effective.

The Company also hereby agrees that, effective upon the purchase of the Santangelo shares by FMRCP, the FMRCP stockholders' agreement shall be deemed amended to incorporate the following provisions of the Santangelo stockholders' agreement: (A) Section 2.01(a),(b),(c) and (e), except that the words "P.J. Santangelo" shall be changed to "Steven W. Hart," and the words "Initial Stockholders" shall be changed to "Other Stockholders," (B) Section 2.03, (C) the definition of "New Securities" contained in Section 1.01 and (D) Section 2.07, except that the words "Initial Stockholders" shall be changed to "Other Stockholders."

Very truly yours,

Lincoln Technical Institute, Inc.

By: /s/ David F. Carney
David F. Carney
Chairman & CEO

cc: Back to School Acquisition, LLC

Exhibit 4.5

STOCKHOLDERS' AGREEMENT

among

LINCOLN TECHNICAL INSTITUTE, INC.

BACK TO SCHOOL ACQUISITION, L.L.C.,

P.J. SANTANGELO

and

JAMES SANTANGELO

Dated as of June 21, 1999

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STOCKHOLDERS' AGREEMENT, dated as of June 21, 1999, among LINCOLN TECHNICAL INSTITUTE, INC., a New Jersey corporation (the "Company"); BACK TO SCHOOL ACQUISITION, L.L.C., a Delaware limited liability company (" Stonington"); and P.J. Santangelo and James Santangelo (together, the "Initial Stockholders").

WHEREAS, on the date hereof, the Company, Stonington, P.J. Santangelo and James Santangelo are consummating the transactions contemplated by the Recapitalization Agreement, dated April 26, 1999 (the "Recapitalization Agreement"), among the Company, Stonington, P.J. Santangelo and James Santangelo; and

WHEREAS, as a condition to the consummation of the transactions contemplated by the Recapitalization Agreement and in order to make certain agreements with respect to their respective rights and obligations as holders of common stock, no par value per share, of the Company (the " Common Stock") the parties hereto have determined that it is in their best interests to enter into this Agreement;

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such specified Person.

"Agreement" or "this Agreement" means this Stockholders' Agreement, dated as of , 1999, among the Company and each of the other parties signatory hereto, and all amendments hereto made in accordance with the provisions of Section 5.11.

"beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the Exchange Act.

"Board" means the Board of Directors of the Company.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

"By-Laws" means the Company's by-laws, as in effect from time to time.

"Capital Stock" means, with respect to any Person at any time, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of capital stock, partnership interests (whether general or limited) or equivalent ownership interests in or issued by such Person.

"Cash Equivalents" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof; (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (" S&P") or Moody's Investors Service, Inc.; or (c) commercial paper maturing not more than one year from the date of issuance thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's Investors Service, Inc.

"Cause" has the meaning specified in Section 2.01(c).

"Certificate of Incorporation" means the Company's Certificate of Incorporation as in effect from time to time.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" has the meaning specified in the recitals to this Agreement.

"Company" has the meaning specified in the preamble to this Agreement.

"Control" (including the terms "controlled by" and "under common control with"), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Employment Agreement" means the Employment Agreement between the Company and P. J. Santangelo of even date herewith.

"Encumbrance" means any security interest, pledge, mortgage, lien (including, without limitation, environmental and tax liens), charge, encumbrance, adverse claim, preferential arrangement or restriction of any kind, including, without limitation, any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Executive Committee" has the meaning specified in Section 2.01(d).

"Fair Value" means (a) as to publicly traded securities, the average of the daily closing prices or last reported sales price, as applicable, or if closing prices or last reported sales prices are not available, the average of the highest reported bid and the lowest reported asked price, for the ten (10) consecutive trading days ending on the most recent trading day prior to the date of determination, and (b) as to other assets, the fair market value of such assets determined in good faith by an independent nationally recognized investment banking firm selected by the Company and approved (which approval shall not be unreasonably withheld) by the (i) Initial Stockholders and their Permitted Transferees and (ii) Stonington and its Affiliates, by action of the majority in number of Shares held by each such group, and which investment banking firm shall have provided no material services to the Company or any Stockholder within the preceding year.

"Fully Diluted Shares" means the aggregate of (a) the number of Shares issued and outstanding (other than Shares held in the treasury of the Company or held by any Subsidiary) and (b) the number of Shares issuable upon (i) the exercise of any then outstanding options, warrants or similar instruments (other than such instruments held by the Company or any Subsidiary) and (ii) the exercise of any conversion or exchange rights with respect to any outstanding securities or instruments (other than such securities or instruments held by the Company or any Subsidiary).

"Initial Stockholders" has the meaning specified in the preamble to this Agreement.

"Marketable Securities" means securities that are (a) (i) securities of or other interests in any Person that are traded on a national securities exchange, reported on the Nasdaq Stock Market System or otherwise actively traded over-the-counter or (ii) debt securities of an issuer that has debt or equity securities that are so traded or so reported on and which a nationally recognized securities firm has agreed to make a market in, and (b) not subject to restrictions on transfer as a result of any applicable contractual provisions or the provisions of the Securities Act or, if subject to such restrictions under the Securities Act, are also subject to registration rights reasonably acceptable to Stonington.

"New Securities" means any Capital Stock of the Company, whether or not now authorized, and rights, options or warrants to purchase such Capital Stock, and securities of any type whatsoever that are, or may become, convertible into or exchangeable or exercisable for Capital Stock of the Company; provided, however, that the term "New Securities" does not include (i) securities of the Company issued to employees, officers or directors of the Company, or which have been reserved for issuance, pursuant to any employee or executive stock option, stock purchase, stock bonus plan, or other similar stock agreement or arrangement approved by the Board; (ii) securities of the Company issued in connection with any stock split, stock dividend or recapitalization or other pro rata distribution of the Company; (iii) securities of the Company issued in connection with the acquisition of the capital stock, other ownership units or assets of another Person or (iv) securities of the Company issued in a Public Offering.

"Other Stockholders" means the Initial Stockholders and their Permitted Transferees.

"Permitted Transferee" means in the case of each Initial Stockholder, (a) any Affiliate of the Initial Stockholder or members of his immediate family, (b) spouses, lineal descendants and members of the Initial Stockholder's immediate family or trusts for their benefits (c) upon such Initial Stockholder's death, such Initial Stockholder's executors, administrators, testamentary trustees, legatees, heirs and beneficiaries, or (d) any Person with respect to which the Stockholders agree that they have no objection if a Sale of Shares is made to such Person.

"Person" means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

"Public Company" means that, as of the date of determination, the shares of Common Stock that have been sold in Public Offerings shall equal not less than 10% of the Fully Diluted Shares.

"Public Offering" means an underwritten public offering of equity securities of the Company pursuant to an effective registration statement under the Securities Act.

"Recapitalization Agreement" has the meaning specified in the recitals hereto.

"Registrable Shares" means the Shares and any securities issued or issuable with respect to any Shares by way of conversion, exchange, replacement, stock dividend, stock split or other distribution or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. For purposes of this Agreement, any Registrable Shares shall cease to be Registrable Shares when (a) a registration statement covering such Registrable Shares has been declared effective and such Registrable Shares have been disposed of pursuant to such effective registration statement, (b) such Registrable Shares are sold by a Person in a transaction in which the rights under the provisions of this Agreement are not assigned or (c) such Registrable Shares are sold pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the Securities Act without registration under the Securities Act.

"Restricted Shares" means all Shares other than (a) Shares that have been registered under a registration statement pursuant to the Securities Act; (b) Shares with respect to which a Sale has been made in reliance upon, and in accordance with, Rule 144; or (c) Shares with respect to which the holder thereof shall have delivered to the Company either (i) a written opinion, in form and substance reasonably satisfactory to the Company, of counsel, who shall be reasonably satisfactory to the Company, or (ii) a "no action" letter from the Commission, to the effect that subsequent transfers of such Shares may be effected without registration under the Securities Act.

"Rule 144" means Rule 144 (or any successor provision) under the Securities Act.

"Rule 144 Transaction" means any Sale of Shares made in reliance upon, and in accordance with, Rule 144.

"Sale" means any sale, assignment, transfer, distribution or other disposition of Shares or of a participation or other right therein, whether voluntarily or by operation of law.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Share" means any share of Common Stock.

"Stockholder" means each Person (other than the Company) who or which shall be a party to this Agreement, whether in connection with the execution and delivery hereof as of the date hereof, pursuant to Section 3.06 or otherwise, so long as such Person shall own, beneficially or of record, any Shares.

"Subsidiary" or "Subsidiaries" of any Person means any corporation, partnership, joint venture, association or other entity, all of the capital stock or other similar equity interests of which, are owned beneficially and of record by such Person directly or indirectly through one or more intermediaries.

"Stonington" has the meaning specified in the preamble to this Agreement.

"Third Party" means, with respect to any Stockholder, any Person, other than (i) the Company, (ii) any Subsidiary of the Company or (iii) any Affiliate of such Stockholder or, in the case of the Initial Stockholders, any Person described in clause (a), (b) or (c) of the definition of Permitted Transferee.

ARTICLE II

CERTAIN AGREEMENTS

SECTION 2.01. Board of Directors. (a) P.J. Santangelo. As long as the Initial Stockholders and their Permitted Transferees (other than those Persons described in clause (d) of the definition of Permitted Transferee), in the aggregate, own Shares constituting at least 5% of the outstanding Shares, the parties hereto will exercise all authority under applicable law to cause the Board to include P.J. Santangelo or his designee, such designee to be reasonably acceptable to Stonington (for so long as P.J. Santangelo wishes to be a member of, or designate a Person to, the Board).

(b) Voting Agreement. Each Stockholder shall take all actions necessary to vote all Shares entitled to vote and owned or held of record by such Stockholder at any annual or special stockholders' meeting at which one or more directors are elected in favor of, or shall take all actions by written consent in lieu of any such meeting necessary to cause, the election of P.J. Santangelo or his designee to the Board, so long as P.J. Santangelo is entitled to be a member of, or to designate a member to, the Board, and the Initial Stockholders shall take all actions necessary to vote all Shares entitled to vote and owned or held of record by them at any annual or special stockholders meeting at which one or more directors are elected in favor of, or shall take all actions by written consent to lieu of such meeting necessary to cause, the election of any individuals designated by Stonington to the Board; provided, that no Stockholder shall be obligated to vote for or consent to the election of an individual pursuant to this Section 2.01 who would at such time be subject to removal for Cause (as defined below). If any Stockholder shall refuse to vote the Shares held by such Stockholder as provided in this Section 2.01 at any meeting of stockholders of the Company, or shall refuse to give its written consent in lieu of a meeting, thereupon, without further action by such Stockholder, the Stockholders entitled to the benefits of this Section 2.01 shall be, and hereby are, irrevocably constituted the attorney-in-fact and proxy of such Stockholder for the purpose of voting, and shall vote such shares at such meeting as provided in this Section 2.01 or give such consent, as the case may be.

(c) Removal. Each Stockholder agrees that, if, at any time, such Stockholder is then entitled to vote for the removal of directors of the Company, such Stockholder will not vote any Shares in favor of the removal of any director elected pursuant to Section 2.01(b) unless such removal shall be for Cause (as defined below); provided, however, that if the Initial Stockholders and their Permitted Transferees (other than those Persons described in clause (d) of the definition of Permitted Transferee) no longer own in the aggregate at least five per cent (5%) of the outstanding Shares, P.J. Santangelo will forthwith, upon Stonington's request, resign as a director of the Company or cause his designee to so resign, as applicable. Removal for "Cause" shall mean removal of a director because of such director's (A) willful or persistently repeated material non-performance of the director's duties to the Company (other than by reason of the incapacity of the director due to physical or mental illness) after notice by the Executive Committee (as defined below) of such failure and the director's non-performance and continued, willful or persistently repeated material non-performance after such notice, (B) the indictment of the director for a felony offense, or (C) the commission by the director of fraud or any willful misconduct that brings the reputation of the Company into serious disrepute or causes the director to cease to be able to perform his duties.

(d) Executive Committee. As soon as reasonably practicable following this date hereof, the Company shall establish an Executive Committee to consist initially of P. J. Santangelo, Miryam Knutson (as chairperson) and the other individuals nominated by Stonington (the "Executive Committee"). P. J. Santangelo shall remain a member of the Executive Committee until such time as the Consulting Period (as defined in the Employment Agreement) has expired, or earlier termination of the Employment Agreement in accordance with its terms.

(e) No Transfer. Notwithstanding any other provision of this Agreement, the rights of P.J. Santangelo pursuant to this Section 2.01 shall not be transferrable by him.

SECTION 2.02. Officers. The Company and the Stockholders agree, for the benefit of P. J. Santangelo, that, upon expiration of the Employment Term (as defined in the Employment Agreement), Laurence Brown will be offered the position of President of the Company and will, unless he earlier resigns or is terminated for Cause, act as the most senior executive officer of the Company until December 31, 1999.

SECTION 2.03. Certain Issuances of New Securities. (a) Until such time as the Company is a Public Company, in the event the Company proposes to issue New Securities to any Person, each Other Stockholder will have the right to purchase, in accordance with Section 2.03(b), the amount of any New Securities which the Company proposes to issue equal to the product of (a) the total amount of such New Securities which the Company proposes to issue at such time, multiplied by (b) a fraction, (i) the numerator of which shall be the total number of Fully Diluted Shares then beneficially owned by such Other Stockholder and (ii) the denominator of which shall be the total number of Fully Diluted Shares then beneficially owned by all Stockholders.

(b) In the event that, prior to the Company being a Public Company, the Company proposes to issue New Securities to any Person, it shall give each Other Stockholder written notice (a

"Notice of Issuance") of its intention, describing all material terms of the New Securities and the price upon which the Company proposes to issue such New Securities. Each Other Stockholder shall have ten (10) Business Days from the date of the Notice of Issuance to agree to purchase all or any portion of such Other Stockholder's pro rata share of such New Securities (as determined pursuant to Section 2.03(a)) at the price and upon the terms stated in the Notice of Issuance; provided, however, that if the Company is proposing to issue New Securities for consideration other than all cash, the Company shall accept from the Other Stockholders either non-cash consideration which is reasonably comparable, as reasonably determined by the Company, to the non-cash consideration specified in the Notice of Issuance or cash in an amount equal to the Fair Value of the non-cash consideration. Any purchase by the Other Stockholders of New Securities shall be consummated on the date on which all other New Securities described in the applicable Notice of Issuance are issued to such Person.

(c) If effective acceptance shall not be received pursuant to Section 2.03(b) with respect to all New Securities proposed to be issued pursuant to a Notice of Issuance, then the Company may sell all or any part of the remaining New Securities so proposed to be issued at a price not less than the price, and on terms not more favorable to the purchaser thereof, than the price and terms stated in the original Notice of Issuance, at any time within one hundred twenty (120) days after the expiration of the offer required by Section 2.03(b). In the event the remaining New Securities are not issued by the Company during such one hundred twenty (120) day period, the right of the Company to issue such remaining New Securities shall expire and the obligations of this Section 2.03 shall be reinstated.

(d) Notwithstanding any other provision of this Agreement, the rights of the Other Stockholders pursuant to this Section 2.03 shall not be transferrable to a Third Party by the Other Stockholders.

SECTION 2.04. Affiliate Transactions. Stonington and the Company agree, for the benefit of P. J. Santangelo, that the Company shall not enter into any agreements or transactions with, purchase any services from, sell any services to, grant any loans to, or borrow from, Stonington or any of its Affiliates, unless such transactions are (i) on terms no less favorable to the Company than could have been obtained by arm's length negotiations with a Person other than Stonington or any of its Affiliates, (ii) in the ordinary course of the Company's business, and (iii) in connection with the operations of the Company.

SECTION 2.05. Company Financial Statements. For such time as the Initial Stockholders and their Permitted Transferees (other than the Persons described in clause (d) of the definition of Permitted Transferee) hold any Shares, the Company agrees to provide each of them with (i) unaudited quarterly financial statements of the Company within 45 days of the end of each fiscal quarter of the Company, and (ii) audited financial statements of the Company within 90 days of the end of each fiscal year of the Company. In addition, for the period from the date hereof through December 31, 1999, the Company agrees to provide the Initial Stockholders with (x) monthly financial statements within 45 days of the end of each month and (y) the right to inspect the Company's managerial financial records (so-called "Brown Books") and other financial books and records upon reasonable notice to the Company and in a manner that does not disrupt the business or operations of the Company. The Company will use all reasonable efforts to cause Deloitte & Touche, LLP, ("Deloitte") to give the Initial Stockholders and their accountants access to Deloitte's audit working papers prepared with respect to the fiscal year ended December 31, 1999, it being understood that Deloitte has agreed that, if the Initial Stockholders and their accountants execute an indemnity letter in the form provided by Deloitte, they will receive such access.

SECTION 2.06. Certificate of Incorporation and By-Laws. For such time as the Initial Stockholders and their Permitted Transferees hold any Shares, each other Stockholder agrees, for the benefit of the Initial Stockholders, not to vote in favor of any amendments to the Certificate of Incorporation or the By-Laws that in any way would affect the Initial Stockholders adversely in a manner different from the other holders of Common Stock.

SECTION 2.07. Redemptions and Repurchases. (a) For such time as the Initial Stockholders and their Permitted Transferees (other than the Persons described in clause (d) of the definition of Permitted Transferee) hold any Shares, the Company and Stonington agree that the Company will not redeem or repurchase any Shares held by any other Stockholder without offering the Initial Stockholders and their Permitted Transferees (other than the Persons described in clause (d) of the definition of Permitted Transferee) the opportunity to have redeemed or repurchased a number of Shares equal to the product of (a) the total number of Shares that the Company proposes to redeem or repurchase from the other Stockholders at such time, multiplied by (b) a fraction, (i) the numerator of which shall be the total number of Shares then owned by the Initial Stockholders and such Permitted Transferees and (ii) the denominator of which shall be the total number of Shares then beneficially owned by the Initial Stockholders and such Permitted Transferees, and the Stockholder(s) from whom or which the Company proposes to redeem or repurchase Shares.

(b) In the event that the Company proposes to redeem or repurchase Shares from any Stockholder other than the Initial Stockholders and their Permitted Transferees (other than the Persons described in clause (d) of the definition of Permitted Transferee), it shall give the Initial Stockholders written notice (a "Notice of Repurchase") of its intention, describing all material terms of the redemption or repurchase and the price and all material terms upon which the Company proposes to redeem or repurchase such Shares. The Initial Stockholders and such Permitted Transferees shall have ten (10) business days from the date of the Notice of Repurchase to agree to have redeemed or repurchased, as applicable, all or any portion of their pro rata share of the Shares being redeemed or repurchased from such other Stockholder or Stockholders (as determined pursuant to Section 2.07(a)) at the price and upon the terms stated in the Notice of Repurchase. Any redemption or repurchase from the Initial Stockholders and such Permitted Transferees of Shares shall be consummated on the date on which all other Shares described in the applicable Notice of Repurchase are redeemed or repurchased from any such other Stockholder.

ARTICLE III

RESTRICTIONS ON TRANSFER

SECTION 3.01. General Restriction. The Other Stockholders agree that they will not, directly or indirectly, make or solicit any Sale of, or create, incur, solicit or assume any Encumbrance with respect to, any Share, except in compliance with the Securities Act and this Agreement.

SECTION 3.02. Legends. (a) The Company shall affix to each certificate evidencing Shares of the Other Stockholders a legend in substantially the following form:

> "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE ISSUER UNLESS SUCH TRANSFER IS MADE IN CONNECTION WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH ACT DOES NOT APPLY.
>
> THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN A STOCKHOLDERS' AGREEMENT, DATED AS OF_______, 1999, AS IT MAY THEREAFTER BE AMENDED, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE ISSUER. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE ISSUER UNLESS AND UNTIL SUCH RESTRICTIONS SHALL HAVE BEEN COMPLIED WITH.

(b) The Company shall affix to each certificate evidencing Shares of any Stockholder a legend in substantially the following form:

> THE HOLDER OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE IS ENTITLED TO CERTAIN RIGHTS AND SUBJECT TO CERTAIN OBLIGATIONS AS SET FORTH IN A STOCKHOLDERS' AGREEMENT, DATED AS OF_____, 1999, AS IT MAY THEREAFTER BE AMENDED, A COPY

OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE ISSUER."

(c) In the event that any Shares shall cease to be Restricted Shares, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the first paragraph of the legend required by Section 3.02(a) endorsed thereon; provided, however, that such holder shall furnish the Company or its transfer agent such certificates, legal opinions or other information as the Company or its transfer agent may reasonably require to confirm that the legend is not required on such certificate. In the event that any Shares shall cease to be subject to the restrictions on transfer set forth in this Agreement, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the second paragraph of the legend required by Section 3.02(a). In the event that any Shares shall cease to be entitled to any rights and subject to any obligations set forth in this Agreement, the Company shall, upon the written request of the holder thereof, issue to such holder a new certificate evidencing such Shares without the legend required by Section 3.02(b).

SECTION 3.03. Certain Restrictions on Transfer. (a) So long as (i) the Company is not a Public Company and (ii) Stonington and its Affiliates, in the aggregate, own Shares representing at least fifty percent (50%) of the Fully Diluted Shares, each Other Stockholder agrees that such Other Stockholder will not, directly or indirectly, make any Sale of, or create, incur, or assume any Encumbrance with respect to, any Shares held by such Other Stockholder other than any Sale or Encumbrance to a Permitted Transferee (other than the Persons described in clause (d) of the definition of Permitted Transferee), without first granting Stonington and/or its Affiliates, the option to acquire those Shares in accordance with this Section 3.03.

(b) If, so long as (i) the Company is not a Public Company and (ii) Stonington and its Affiliates, in the aggregate, own Shares representing at least fifty percent (50%) of the Fully Diluted Shares, an Other Stockholder receives a bona fide offer from a Third Party with respect to the Sale of such Other Stockholder's Shares, such Other Stockholder shall give to Stonington written notice (the " Transfer Notice") of such proposed Sale, specifying the proposed transferee, the number of Shares proposed to be disposed of, the proposed purchase price to be received in exchange therefor, and the other material terms of the proposed Sale. Delivery of the Transfer Notice to Stonington shall constitute an irrevocable offer to sell such Shares to Stonington on the terms and conditions set forth therein; provided, however, that if the proposed purchase price set out in the Transfer Notice is other than all cash, such Other Stockholder shall accept an amount of cash equivalent to the Fair Value of such non-cash consideration, such Fair Value to be determined at the cost of the Company.

(c) Stonington shall have the right, exercisable by written notice given to such Other Stockholder within ten (10) Business Days after receipt of such Transfer Notice, to purchase (or to cause an Affiliate of Stonington to purchase) all, but not less than all, of the Shares specified in such Transfer Notice at the purchase price and on the other terms set forth therein.

(d) If Stonington exercises its right of first refusal pursuant to this Section 3.03, the closing of the purchase of the Shares with respect to which such right has been exercised shall take place within five Business Days after Stonington gives notice of such exercise. If Stonington does not exercise its right of first refusal pursuant to this Section 3.03 within the time specified for such exercise, the Other Stockholders shall be free during the 90-day period following the expiration of such time to sell the Shares specified in such Transfer Notice to the Person specified therein for the consideration (or at any price in excess thereof) and on substantially the same terms (or on other terms more favorable to the Other Stockholders) specified therein.

SECTION 3.04. Rights to Participate in Certain Sales. (a) (i) So long as the Company is not a Public Company, neither Stonington nor any of its Affiliates shall, in one or more transactions, directly or indirectly, make any Sale of Shares held by them constituting more than forty-five percent (45%) of the then outstanding Shares to any Third Party or Third Parties, unless the terms and conditions of such Sale shall include an offer to include, at the option of the Other Stockholders, in such Sale to the Third Party or Third Parties, the number of Shares then owned by such Other Stockholders, as determined by Section 3.04(a)(iii).

(ii) If, so long as the Company is not a Public Company, Stonington and/or any of its Affiliates receives from a Third Party or Third Parties a bona fide offer or offers to purchase or otherwise acquire (for purposes of this Section an "Offer") any Shares held by Stonington or such Affiliates (for purposes of this Section 3.04, the "Offered Shares") that, together with Shares previously disposed of by Stonington or any of such Affiliates to Third Parties aggregate more than forty-five percent (45%) of the then outstanding Shares (such Shares, together with the Offered Shares, for purposes of this Section 3.04, the "Tag-Along Shares"), and Stonington and/or such Affiliates intends to sell such Offered Shares to such Third Party or Third Parties, then Stonington and such Affiliate (for purposes of this Section 3.04, the "Prospective Sellers") shall jointly provide written notice (for purposes of this Section 3.04, the "Offer Notice") of such Offer to each of the Other Stockholders not later than thirty (30) days prior to the consummation of the Sale contemplated by the Offer. The Offer Notice shall identify the Offered Shares, the price offered for such Offered Shares (for purposes of this Section 3.04, the "Offer Price"), all other material terms and conditions of the Offer and, in the case of an Offer in which the consideration payable for Offered Shares consists in whole or in part of consideration other than cash, such information relating to such other consideration as may be reasonably necessary to ascertain the value of such other consideration.

(iii) Each of the Other Stockholders shall have the right and option, for the period of ten (10) days after the date the Offer Notice is given (for purposes of this Section 3.04, the "Notice Period"), to notify the Prospective Sellers of such Other Stockholder's interest in selling or otherwise disposing of up to the Pro Rata Portion of such Other Stockholder's Shares pursuant to the Offer. For purposes of this subsection 3.04, " Pro Rata Portion" means, with respect to each Other Stockholder, a number of Shares equal to the product of (x) the total number of Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Tag-Along Shares, and the denominator of which shall be the total number of Shares owned by the Prospective Sellers on the date of the first sale of Tag-Along Shares.

(iv) Each Other Stockholder desiring to sell such Other Stockholder's Pro Rata Portion of Shares pursuant to this Section 3.04 shall, prior to the expiration of the Notice Period, provide the Prospective Sellers with a written notice specifying the number of Shares as to which such Other Stockholder has an interest in selling or otherwise disposing of pursuant to the Offer (for purposes of this Section 3.04, a " Notice of Interest"), and shall deliver to the Prospective Sellers, to be held in trust, (A) the certificate or certificates evidencing the Shares to be sold or otherwise disposed of by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to the Prospective Sellers executed by such Other Stockholder; (B) an instrument of assignment reasonably satisfactory to the Prospective Sellers assigning, as of the consummation of the Sale to the Third Party or Third Parties, all of such Stockholder's rights under this Agreement with respect to the Shares to be sold or otherwise disposed of (to the extent assignable); (C) a special irrevocable power-of-attorney authorizing the Prospective Sellers, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer (at a price equal to the Offer Price) and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that the Prospective Sellers shall not have the authority to incur or create liabilities or to give representations or warranties on behalf of such Other Stockholder; and (D) wire transfer instruction for payment of the purchase price (if cash) for the purchase of the Other Stockholder's Shares. Delivery of such certificate or certificates evidencing the Shares to be sold, the instrument of assignment, the special irrevocable power of attorney authorizing the Prospective Sellers and wire transfer instructions, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares shall constitute an irrevocable election by such Other Stockholder to authorize and permit the Prospective Sellers to sell such Shares, on behalf of such Other Stockholder, pursuant to the Offer. The Prospective Sellers shall cause the Third Party to whom or which the Shares of the Other Stockholders are being sold or otherwise disposed of to deliver the appropriate purchase price for the purchase of such Shares to the Other Stockholders, against delivery of the Shares being sold or otherwise disposed of.

(v) Each Stockholder shall bear such Stockholder's own expenses in connection with any such Sale pursuant to this Section 3.04.

(vi) If at the end of the Notice Period any Other Stockholder shall not have given a Notice of Interest (and delivered all other required documents) with respect to some or all of such Other Stockholder's Shares, such Other Stockholder will be deemed to have waived all of such Other

Stockholder's rights under this Section 3.04 with respect to the portion of such Other Stockholder's Shares for which a Notice of Interest shall not have been given. If, at the end of the 180-day period following the giving of the Offer Notice, the Prospective Sellers shall not have completed the Sale of all the Offered Shares and the Shares with respect to which any Other Stockholders shall have given Notices of Interest pursuant to this Section 3.04, the Prospective Sellers shall return to such Other Stockholders all certificates evidencing the unsold Shares that such Other Stockholders delivered for Sale pursuant to this Section 3.04 and such Other Stockholders' related instruments of assignment and powers-of-attorney and the Prospective Sellers shall not consummate the Sale with such Third Party or Third Parties without again complying with the terms and procedures set forth in this Section 3.04, including providing to the Other Stockholders another Offer Notice.

(vii) Except as expressly provided in this Section 3.04, no Prospective Seller shall have any obligation to any Other Stockholder with respect to the Sale of any Shares owned by Other Stockholder in connection with this Section 3.04. Anything herein to the contrary notwithstanding and irrespective of whether any Notice of Interest shall have been given, no Prospective Seller shall have any obligation to any Other Stockholder to sell or otherwise dispose of any Offered Shares pursuant to this Section 3.04 as a result of any decision by such Prospective Seller not to accept or consummate any Offer or Sale with respect to the Offered Shares (it being understood that any and all such decisions shall be made by such Prospective Seller in its sole discretion). Except as otherwise permitted herein, no Other Stockholder shall be entitled to sell or otherwise dispose of Shares directly to any Third Party or Third Parties pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 3.04).

(b) Anything in this Section 3.04 to the contrary notwithstanding, in the event that Stonington and/or its Affiliates shall exercise their rights under Section 3.05, the Other Stockholders shall thereafter have no right pursuant to this Section 3.04 to participate in any Sale pursuant to this Section 3.04 with respect to the Sale the subject of Section 3.05. Nothing in this Section 3.04 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

SECTION 3.05. "Drag-Along" Rights. (a) Prior to such time as the Company is a Public Company, and so long as Stonington or its Affiliates, in the aggregate, own Shares representing more than fifty percent (50%) of the then outstanding Shares, if Stonington and/or any of its Affiliates shall, in any transaction or series of related transactions, directly or indirectly, propose to make a Sale of Shares constituting more than 50% of the Fully Diluted Shares (for purposes of this Section 3.05, the "Controlling Shares") to a Third Party or Third Parties (for purposes of this Section 3.05, an "Offer"), Stonington and/or such Affiliates may, at their option, require each of the Other Stockholders to sell the Pro Rata Portion of such Stockholder's Shares to such Third Party or Third Parties for the same consideration per Share and otherwise upon the same terms and conditions upon which Stonington and/or such Affiliates sell their Shares. For purposes of this Section 3.05, "Pro Rata Portion" means, with respect to each Other Stockholder, a number of Shares equal to the product of (x) the total number of Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Shares proposed to be sold by Stonington and/or such Affiliates, and the denominator of which shall be the total number of such Stockholder's Shares then owned by Stonington and/or its Affiliates.

(b) (i) Stonington and/or such Affiliates shall provide a written notice (for purposes of this Section 3.05, the " Offer Notice") of such Offer to each of the Other Stockholders not later than the fifteenth Business Day prior to the consummation of the Sale contemplated by the Offer. The Offer Notice shall contain written notice of the exercise of the "drag-along" rights of Stonington and/or its Affiliates pursuant to Section 3.05(a), setting forth the consideration per Share to be paid by the Third Party or Third Parties and the other material terms and conditions of the Offer. Within ten (10) Business Days following the date the Offer Notice is given, each of the Other Stockholders shall deliver to Stonington and/or such Affiliates, to be held in trust, (A) the certificate or certificates evidencing the Pro Rata Portion of Shares owned or held by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to Stonington and/or such Affiliate executed by such Other Stockholder, (B) a special irrevocable power-of-attorney authorizing Stonington and/or such Affiliate, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that Stonington and/or such Affiliate shall not have the authority to incur or create liabilities or to give representations and warranties on behalf of such Other Stockholder, and (C) wire transfer instructions for payment of the purchase price of the Other Stockholder's Shares; provided that no Other Stockholder shall have any liability to any purchaser of the Shares pursuant to the Offer in excess of the aggregate proceeds received by such Other Stockholder in exchange for such Stockholder's Shares or in a manner that is disproportionate or different from Stonington and its Affiliates. Stonington and/or such Affiliate shall cause the Third Party to whom or which the Shares of the Stockholders are being sold or otherwise disposed to deliver the appropriate amount of immediately available funds for the purchase of such Shares to the Other Stockholders pursuant to the wire transfer instructions described in clause (C) above. If in connection with such Sale, Stonington and/or such Affiliate are to receive consideration other than cash, Cash Equivalents or Marketable Securities, each Other Stockholder shall have the right to elect to receive in lieu thereof cash or Cash Equivalents equal to the Fair Value of the consideration otherwise payable to such Other Stockholder. Such Other Stockholder shall make such election in a written notice to Stonington and/or such Affiliate within ten (10) Business Days following the date the Offer Notice is provided to such Other Stockholder.

(ii) Each Stockholder shall bear such Stockholder's own expenses incurred in connection with a Sale pursuant to this Section 3.05.

(iii) If, at the end of the 180-day period following the giving of the Offer Notice, Stonington and/or its Affiliates shall not have completed the Sale of all the Controlling Shares and the

Other Stockholders' Shares delivered pursuant to Section 3.05(b)(i), Stonington and/or its Affiliates shall return to each of the Other Stockholders all certificates evidencing unsold Shares and related powers-of-attorney that such Other Stockholder delivered pursuant to this Section 3.05.

(iv) Except as expressly provided in this Section 3.05, Stonington and its Affiliates shall have no obligation to any Other Stockholder with respect to the Sale of any Shares owned by any Other Stockholder in connection with this Section 3.05. Anything herein to the contrary notwithstanding, Stonington and/or its Affiliates shall have no obligation to any Stockholder to sell or otherwise dispose of any Controlling Shares pursuant to this Section 3.05 as a result of any decision by Stonington and/or its Affiliates not to accept or consummate any Offer or Sale with respect to the Controlling Shares (it being understood that any and all such decisions shall be made by Stonington and/or its Affilaites in their sole discretion). No Other Stockholder shall be entitled to make any Sale of Shares directly to any Third Party pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 3.05). Nothing in this Section 3.05 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

SECTION 3.06. Certain Persons to Execute Agreement. (a) Each Stockholder agrees that it will not directly or indirectly make any Sale of, or create, incur or assume any Encumbrance with respect to, any Shares held by such Stockholder, unless, prior to the consummation of any such Sale or the creation, incurrence or assumption of any such Encumbrance, the Person to whom or which such Sale is proposed to be made or the Person in whose favor such Encumbrance is proposed to be created, incurred or assumed (for purposes of this Section 3.06, a " Prospective Transferee") (i) executes and delivers to the Company an agreement, in form and substance reasonably satisfactory to the Company, whereby such Prospective Transferee confirms that, with respect to the Shares that are the subject of such Sale or Encumbrance, it shall be deemed to be a "Stockholder" for the purposes of this Agreement and agrees to be bound by all the terms of this Agreement and (ii) delivers to the Company a written opinion of counsel, satisfactory in form and substance to the Company, to the effect that the agreement referred to above that is delivered by such Prospective Transferee is a legal, valid and binding obligation of such Prospective Transferee enforceable against such Prospective Transferee in accordance with its terms. Upon the execution and delivery by such Prospective Transferee of the agreement referred to in clause (i) of the next preceding sentence and, the delivery of the opinion of counsel referred to in clause (ii) of the next preceding sentence, such Prospective Transferee shall be deemed a "Stockholder" for the purposes of this Agreement, and shall have the rights and be subject to the obligations of a Stockholder hereunder with respect to the Shares held by such Prospective Transferee or in respect of which such Encumbrance shall have been created, incurred or assumed.

(b) Anything in this Section 3.06 to the contrary notwithstanding, the provisions of this Section 3.06 will not be applicable to (i) any Sale of Shares pursuant to a Public Offering or (ii) any

Sale of Shares in a Rule 144 Transaction so long as immediately prior to, and immediately after the consummation of, such Rule 144 Transaction the Company is a Public Company.

SECTION 3.07. Improper Sale or Encumbrance. Any attempt by any Stockholder to make any Sale of, or create, incur or assume any Encumbrance with respect to, any Shares not in compliance with this Agreement shall be null and void and the Company shall not give any effect in the Company's stock records to such attempted Sale or Encumbrance.

ARTICLE IV

REGISTRATION RIGHTS

SECTION 4.01. Incidental Registration. If at any time the Company determines that it shall file a registration statement under the Securities Act (other than a registration statement on a Form S-4 or S-8 or filed in connection with an exchange offer or an offering of securities solely to the Company's employee benefit plans) on any form that would also permit the registration of the Registrable Shares and such filing is to be on behalf of the Company and/or on behalf of selling holders of its securities for the general registration of its Common Stock to be sold for cash, the Company shall each such time promptly give each Other Stockholder written notice of such determination setting forth the date on which the Company proposes to file such registration statement, which date shall be no earlier than thirty (30) days from the date of such notice, and advising each Other Stockholder of its right to have such Other Stockholder's Registrable Shares included in such registration; provided that the Other Stockholders shall not have any right to have their Registrable Shares included in the initial public offering of the Company if no other Stockholder has its Registrable Shares so included. Upon the written request of any Other Stockholder received by the Company no later than fifteen (15) days after the date of the Company's notice, the Company shall use all reasonable efforts to cause to be registered under the Securities Act all of the Registrable Shares that each such Other Stockholder has so requested to be registered. If, in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Other Stockholders), the total amount of such securities to be so registered, including such Registrable Shares, will exceed the maximum amount of the Company's securities which can be marketed (i) at a price reasonably related to the then current market value of such securities, or (ii) without otherwise materially and adversely affecting the entire offering, then the Company shall be entitled to reduce the number of Registrable Shares to be sold in the offering by the Other Stockholders, and any other stockholders of the Company exercising incidental registrations rights similar to those set forth herein, to that number which in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Other Stockholders) would permit all such securities (including Shares held by any other stockholder of the Company who proposes to exercise such incidental registration rights) to be so marketed. Such reduction shall be allocated among the Stockholders in proportion (as nearly as practicable) to the amount of Registrable Shares owned by each such Stockholder at the time of filing the registration statement.

SECTION 4.02. Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.01 that the Other Stockholders shall furnish to the Company such information regarding themselves, the Registrable Shares held by them, and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

SECTION 4.03. Expenses of Registration. All expenses incurred in connection with each registration pursuant to Section 4.01, excluding underwriters' discounts and commissions, but including without limitation all registration, filing and qualification fees, word processing, duplicating, printers' and accounting fees (including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance), fees of the National Association of Securities Dealers, Inc. or listing fees, messenger and delivery expenses, all fees and expenses of complying with state securities or blue sky laws, fees and disbursements of counsel for the Company, and the fees and disbursements of one counsel for the selling Other Stockholders (which counsel shall be selected by the Other Stockholders holding a majority in interest of the Registrable Shares being registered), shall be paid by the Company. The Other Stockholders shall bear and pay the underwriting commissions and discounts applicable to securities offered for their account in connection with any registrations, filings and qualifications made pursuant to this Agreement.

SECTION 4.04. Underwriting Requirements. In connection with any underwritten offering, the Company shall not be required under Section 4.01 to include Registrable Shares in such underwritten offering unless the Other Stockholders holding such Registrable Shares accept the terms of the underwriting of such offering that have been reasonably agreed upon between the Company and the underwriters selected by the Company and which are customary with respect to such an offering and not inconsistent with this Article IV. No such Other Stockholder shall be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Other Stockholder, such Other Stockholders' Registrable Shares and such Other Stockholders' intended method of distribution customarily given to underwriters and any other representation required by law.

SECTION 4.05. Registration Procedures. If and whenever the Company is required by the provisions of Section 4.01 to effect the registration of any Registrable Shares under the Securities Act, the Company shall, as expeditiously as possible:

(a) furnish to each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in such registration statement filed under Rule 424 under the Securities Act, and such other documents, as such Other Stockholder and underwriter may reasonably request in order to facilitate the public sale or other disposition of such Registrable Shares;

(b) use all reasonable efforts to register or qualify all Registrable Shares covered by such registration statement under such other securities laws or blue sky laws of such jurisdictions as any Other Stockholder thereof and any underwriter thereof shall reasonably request.

(c) notify each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon the Company's discovery that, or upon the happening of any event of which the Company has knowledge as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such Other Stockholder or such underwriter promptly prepare and furnish to such Other Stockholder or such underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

SECTION 4.06. Rule 144 Information. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Shares to the public without registration, at all times after ninety (90) days after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(ii) use its reasonable efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) furnish to each Other Stockholder holding Registrable Shares forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of such Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such Other Stockholder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Other Stockholder to sell any Registrable Shares without registration.

SECTION 4.07. Indemnification. In the event any Registrable Shares are included in a registration statement under Section 4.01:

(a) The Company shall indemnify and hold harmless each Other Stockholder, such Other Stockholder's directors and officers, each Person who participates in the offering of such Registrable Shares, including underwriters (as defined in the Securities Act), and each Person, if any, who controls such Other Stockholder or participating Person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which they may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder, and shall reimburse each such Other Stockholder, such Other Stockholder's directors and officers, such participating person or controlling person for any legal or other expenses reasonably incurred by them (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); provided, further, that the Company shall not be liable to any Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in connection with such registration statement, preliminary prospectus, final prospectus or amendments or supplements thereto, in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person. Such indemnity shall remain in full force regardless of any investigation made by or on behalf of any such Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Other Stockholder.

(b) Each Other Stockholder joining in a registration severally and not jointly shall indemnify and hold harmless the Company, each of its directors and officers, each person, if any, who controls the Company within the meaning of the Securities Act, and each agent and any underwriter for the Company (within the meaning of the Securities Act) against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, controlling person, agent or underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, or amendments or supplements thereto, in reliance upon and in conformity with written information furnished by or on behalf of such Other Stockholder expressly for use in connection with such registration; and each such Other Stockholder shall reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, agent or underwriter (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Other Stockholder (which consent shall not be unreasonably withheld), and provided, further, that the liability of each Other Stockholder hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the net proceeds from the sale of the Shares sold by such Other Stockholder under such registration statement bears to the total net proceeds from the sale of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Other Stockholder from the sale of Registrable Securities covered by such registration statement.

(c) Promptly after receipt by an indemnified party under this Section 4.06 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 4.06, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party; provided, however, that an indemnified party shall have the right to retain its own counsel, with all reasonable fees and expenses thereof to be paid by such indemnified party, and to be apprised of all progress in any proceeding the defense of which has been assumed by the indemnifying party. The failure to notify an indemnifying party promptly of the commencement of any such action, if and to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 4.07, but the omission so to notify the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 4.07.

(d) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages or liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.07(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

ARTICLE V

MISCELLANEOUS

SECTION 5.01. Termination. Unless otherwise expressly provided herein, the obligations of the parties hereto shall terminate on the date upon which the Initial Stockholders or their Permitted Transferees cease to own any Shares.

SECTION 5.02. Conflict with Certificate of Incorporation or By-Laws. In the event any provision of this Agreement conflicts with any provision of the Certificate of Incorporation or the By-Laws, the terms of this Agreement shall control, and each Stockholder shall vote all Shares which such Stockholder holds of record, and shall take all actions necessary, to ensure that at all times the Certificate of Incorporation and the By-Laws do not conflict with any provision of this Agreement.

SECTION 5.03. Expenses. Except as expressly set forth herein, costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Person incurring such costs and expenses.

SECTION 5.04. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, by telecopy or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 5.04):

(a) if to the Initial Stockholders:

P. J. Santangelo
5 Country Squire Road
Saddle River, NJ 07458
Telecopy: (201) 818-8599
(call prior to faxing)

with a copy to:

Shipman & Goodwin, LLP
One American Row
Hartford, CT 06103-2819
Telecopy: (860) 251-5900
Attention: Thomas P. Flynn, Esq.

(b) if to the Company:

Lincoln Technical Institute, Inc.
200 Executive Drive
West Orange, NJ 07052
Telecopy: (973) 243-0841
Attention: President

with a copy to:

Stonington Partners, Inc.
767 Fifth Avenue, 48th Floor
New York, NY 10153
Telecopy: (212) 339-8585
Attention: James J. Burke, Jr.

(c) if to Stonington:

c/o Stonington Partners, Inc.
767 Fifth Avenue, 48 Floor
New York, NY 10153
Telecopy: (212) 339-8585
Attention: James J. Burke, Jr.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, NY 10022
Telecopy: (212) 848-7179
Attention: Clare O'Brien, Esq.

SECTION 5.05. Public Announcements. Unless otherwise required by applicable law, no party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party, and the parties shall cooperate as to the timing and contents of any such press release or public announcement.

SECTION 5.06. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 5.07. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law, governmental regulation or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

SECTION 5.08. Entire Agreement. This Agreement and the agreements referred to herein constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, between the Company, Stonington and the Initial Stockholders with respect to the subject matter hereof and thereof.

SECTION 5.09. Assignment. Except as expressly provided herein, this Agreement shall not be assigned without the express written consent of each of the Company, Stonington, P.J. Santangelo and James Santangelo (which consent may be granted or withheld in the sole discretion of each of the Company, Stonington, P.J. Santangelo and James Santangelo).

SECTION 5.10. No Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto, their successors and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

SECTION 5.11. Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, each of the parties.

SECTION 5.12. Governing Law. This Agreement shall be governed by the laws of the State of New York. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined in any New York state or federal court sitting in The City of New York, and the parties hereto hereby consent to the jurisdiction of such courts in any such action or proceeding.

SECTION 5.13. Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 5.14. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

SECTION 5.15. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the Company, Stonington, P.J. Santangelo or James Santangelo in the negotiation, administration, performance and enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written, by, in the case of the Company and Stonington, their respective authorized signatories thereunto duly authorized.

LINCOLN TECHNICAL INSTITUTE, INC.

By ______________________________
Name:
Title:

BACK TO SCHOOL ACQUISITION, L.L.C.

By ______________________________
Name:
Title:

P.J. SANTANGELO

/s/ P.J. Santangelo

JAMES SANTANGELO

/s/ James Santangelo

Exhibit 4.6

MANAGEMENT STOCKHOLDERS AGREEMENT

MANAGEMENT STOCKHOLDERS AGREEMENT (the "*Agreement*"), dated as of January 1, 2002, by and among LINCOLN TECHNICAL INSTITUTE, INC., a New Jersey corporation (the " *Company*"), the stockholders and the holders of Options under the Management Stock Option Plan (as such terms are defined below) listed on Schedule I hereto, as such Schedule 1 may be amended from time to time (collectively with their respective Permitted Transferees (as defined below), the "*Management Investors*" and BACK TO SCHOOL ACQUISITION L.L.C., a Delaware limited liability corporation ("*Stonington*").

WHEREAS, pursuant to a Recapitalization Agreement dated as of April 26, 1999 (the " *Recapitalization Agreement*"), the Company was recapitalized on behalf of Stonington;

WHEREAS, after the closing of the Transactions contemplated by the Recapitalization Agreement, certain Management Investors will purchase Shares (as defined below) of common stock, no par value per share, of the Company (the " *Common Stock*") and be granted Options (as defined below) under the Management Stock Option Plan; and

WHEREAS, the Company and the Stockholders (as defined below) wish to enter into this Agreement to provide certain rights and obligations among them;

NOW, THEREFORE, in consideration of the premises and mutual agreements, covenants and provisions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the meanings ascribed to them below:

"*Affiliate*" shall mean with respect to any Person any of (a) a director or officer of such Person, (b) a spouse, parent, sibling or descendant of such Person (or spouse, parent, sibling or descendant of any officer or director of such Person), (c) any other relative of such Person (or relative of any officer or director of such Person) who has the same home as such Person (or as any officer or director of such Person), and (d) any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For the purposes of this definition, "*control*" (including, with correlative meanings, the terms "*controlling*", "*controlled*" and "*under common control with*"), as used with respect to any Person, shall mans the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or agency or otherwise.

"*Bank Credit Agreement*" shall mean a credit agreement between the Company, and the lenders, as in effect and as amended, supplemented or otherwise modified from time to time.

"*Board of Directors*" shall mean the board of directors of the Company.

"*Cash Equivalents*" shall mean (a) marketable direct obligations issued or unconditionally guaranteed by the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof, (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either Standard & Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc. (" *S&P*") or Moody s Investors Service, Inc., or (c) commercial paper maturing not more than one year from the date of issuance thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody s Investors Service, Inc.

"*Cause*" as used in connection with a termination of employment, consultancy or directorship of a Management Investor shall mean (unless otherwise defined in an agreement between such Management Investor and the Company or any of its subsidiaries, in which case the term " *Cause*" as used herein with respect to such Management Investor shall have the meaning ascribed to it therein), (i) the Management Investor's willful failure to perform the duties of his or her employment, consultancy or directorship in any material respect, (ii) malfeasance or gross negligence in the performance of a Management Investor's duties of employment, consultancy or directorship, (iii) the Management Investor's conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his or her employment, consultancy or directorship), (iv) the Management Investor's intentional or reckless disclosure of Protected Information respecting the Company's or any of its subsidiaries' business to any individual or entity which is not in the performance of the duties of his or her employment, consultancy or directorship, (v) the Management Investor'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 Management Investor (other than an act or omission resulting from the exercise by the Management Investor of good faith business judgment), which is materially injurious to the financial condition or business reputation of the Company or any of its Affiliates; provided, however, that in the case of (i) and (ii) above, a Management Investor 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 thirty (30) days after he has received such notice, except that no such "cure opportunity" shall be required in the case of two separate episodes giving the Company, the right to terminate for cause for such reason occurring within any 12-month period.

"*Closing*" shall mean the consummation of the transactions contemplated by the Recapitalization Agreement.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended.

"*Common Stock*" has the meaning specified in the recitals to this Agreement.

"Company" has the meaning specified in the preamble to this Agreement.

"*Disability*," with respect to a Management Investor, shall mean (unless otherwise defined in an agreement between such Management Investor and the Company or any of its subsidiaries, in which case the term " *Disability*" as used herein with respect to such Management Investor shall have the meaning ascribed to it therein) the inability of such Management Investor to perform substantially such Management Investor's duties and responsibilities to the Company or any of its subsidiaries by reason of a physical or mental disability or infirmity (i) for a continuous period of six months or (ii) at such earlier time as such Management Investor submits medical evidence of such disability satisfactory to the compensation committee of the Board of Directors acting reasonably that such Management Investor has a physical or mental disability or infirmity that will likely prevent such Management Investor from substantially performing such Management Investor's 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 compensation committee of the Board of Directors determines that the Management Investor has a physical or mental disability or infirmity as provided in clause (ii) herein.

"*Duly Endorsed*" shall mean duly endorsed in blank by the person or persons in whose name a stock certificate is registered or accompanied by a duly executed stock or security assignment or stock transfer power separate from the certificate with the signature(s) thereon guaranteed by a commercial bank or trust company or a member of a national securities exchange or the National Association of Securities Dealers, Inc. or such other executed stock or security assignment as the compensation committee of the Board of Directors may in their sole discretion deem acceptable, free and clear of all encumbrances.

"*EBITDA*" for any period shall mean the consolidated earnings from continuing operations of the Company and its subsidiaries for such period before consolidated interest, taxes, depreciation and amortization, determined in accordance with GAAP in effect on the date hereof and consistent with the principles utilized in connection with the preparation of the audited financial statements of the Company for the year ended December 31, 2001, excluding (i) extraordinary charges and gains and (ii) any charges or gains attributable to the grant or exercise of the Options.

"*ERISA*" shall mean the federal Employee Retirement Income Security Act of 1974 or any successor statue, and the rules and regulations thereunder.

"*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute then in effect, and a reference to a particular section thereof shall be deemed to include a reference to the comparable section, if any, of such similar federal statute.

"*Fair Value Price*" shall mean, with respect to each Share, as of any date of determination, the quotient obtained by dividing (a) the excess of (I) the product of (A) the Company's EBITDA for the four full fiscal quarters ending immediately preceding the date of determination, and (B) 6.0, over (II) the excess of (C) the sum of (x) the aggregate principal amount of any Indebtedness, determined in accordance with GAAP, as of the end of the most recently completed fiscal quarter of the Company and (y) the aggregate liquidation value (including any accrued dividends thereon) of any outstanding preferred stock of the Company or any of its subsidiaries that is held by persons or entities other than the Company or any of its subsidiaries, determined in accordance with GAAP, as of the end of the most recently completed fiscal quarter of the Company, over (D) the sum of the amount of cash deemed to be on hand as of the end of such quarter as a result of the assumed exercise of all outstanding options as described in the next paragraph and the amount of cash and Cash Equivalents, determined in accordance with GAAP, held by the Company or any of its subsidiaries as of the end of such quarter by (b) the number of Shares then outstanding determined on a fully diluted basis as of the end of its most recently completed fiscal quarter of the Company; provided, however, if there had been a disposition of assets representing a substantial portion of the consolidated assets of the Company, an acquisition of assets representing a substantial portion of the consolidated assets of the Company, a recapitalization of the Company, or other extraordinary transaction in the preceding four quarters then the Fair Value Price shall be adjusted as determined by the Board of Directors in good faith.

In making calculations for purposes of subclauses (a) and (b) of the preceding paragraph it shall be assumed that all Options (whether or not then vested or exercisable), warrants and rights to purchase Shares and securities convertible or exchangeable into Shares, if any, outstanding on the date as of which the calculation is being made had been exercised, converted or exchanged on such date if the exercise price or conversion or exchange price is less than the Fair Value Price per share and any purchase price for Shares payable upon such exercise had been paid in cash and appropriate adjustments (including without limitation the reflection of such cash exercise price and the issuance of such additional Shares) made to the relevant balance sheet of the Company.

"*Fully Diluted Shares*" shall mean the aggregate of (a) the number of Shares issued and outstanding (other than Shares held in the treasury of the Company or held by any Subsidiary) and (b) the number of Shares issuable upon (i) the exercise of any then outstanding Options, warrants or similar instruments (other than such instruments held by the Company or any Subsidiary) and (ii) the exercise of any conversion or exchange rights with respect to any outstanding securities or instruments (other than such securities or instruments held by the Company or any Subsidiary).

"*GAAP*" shall mean United States generally accepted accounting principles.

"*Indebtedness*" shall mean, without duplication, (a) all debt for money borrowed, including accrued but unpaid interest thereon, whether direct or indirect, (b) all liabilities secured by any mortgage, pledge, security interest, lien, charge, or other encumbrance existing on property owned or acquired subject thereto, whether or not the liability secured thereby shall have been assumed, and (c) all guarantees, endorsements and other contingent obligations whether direct or indirect in respect of indebtedness of others of the character referred to in (a) or (b) above, including any obligation to supply funds to or in any manner to invest in, directly or indirectly, any other Person, to purchase indebtedness, or to assure any other Person against loss, and the obligations to reimburse any other Person in respect of any letters of credit.

"*Involuntary Termination*" shall mean, with respect to a Management Investor, the termination of his or her employment, consultancy or directorship with the Company or its subsidiaries (a) by the Company of its subsidiaries, which termination is not for Cause or the result of the Management Investor's Retirement, death or Disability, (b) in the event that such Management Investor has an agreement with the Company or any subsidiary thereof, and such agreement defines a termination of employment, consultancy or directorship by the Management Investor for "Good Reason," by the Management Investor of Good Reason (as such term is defined in such agreement) and (c) in the event that such Management Investor has an agreement with the Company or any of its subsidiaries, as may otherwise be provided in such agreement.

"*IPO*" shall have the meaning specified in Section 2.2(a)(iii) hereof.

"*Management Investors*" shall have the meaning specified in the preamble hereto. Unless the context otherwise requires, when used in this Agreement the term Management Investors shall include any employee, consultant or non-employee director of the Company or any of its subsidiaries who has from time to time been granted an Option pursuant to the Management Stock Option Plan.

"*Management Shares*" shall mean the Shares beneficially owned from time to time by the Management Investors or their Permitted Transferees, including Shares acquired simultaneously with the Closing and Shares issued upon the exercise of an Option granted under the Management Stock Option Plan.

"*Management Stock Option Plan*" shall mean the Management Stock Option Plan adopted by the Board of Directors as of January 1, 2002, as in effect from time to time.

"*Management Subscription Agreement*" shall mean the Management Stock Subscription Agreement, dated the date hereof, among the Company and the Management Investors named therein.

"*Marketable Securities*" shall mean securities that are (a) (i) securities of or other interests in any Person that are traded on a national securities exchange, reported on the Nasdaq Stock Market System or otherwise actively traded over-the-counter or (ii) debt securities of an issuer that has debt or equity securities that are so traded or so reported on and which a nationally recognized securities firm has agreed to make a market in, and (b) not subject to restrictions on transfer as a result of any applicable contractual provisions or the provisions of the Securities Act or, if subject to such restrictions under the Securities Act, are also subject to registration rights reasonably acceptable to Stonington.

"*Option Price*" shall have the meaning set forth in the Management Stock Option Plan, determined by reference to whether such Option is a Service Option or a Performance Option.

"*Options*" shall mean, collectively, the Service Options and the Performance Options granted from time to time pursuant to the Management Stock Option Plan.

"*Other Stockholders*" shall mean the Management Investors and their Permitted Transferees and each employee, consultant or non employee director of the Company who becomes a party to this Agreement after the date of this Agreement which shall have been granted similar rights.

"*Performance Options*" shall mean Performance Options granted from time to time pursuant to the Management Stock Option Plan.

"*Permitted Transferees*" shall have the meaning specified in Section 2.2(a)(iv) hereof.

"*Person*" shall mean an individual, partnership, joint venture, corporation, trust, unincorporated organization or government or any department or agency thereof.

"*Protected Information*" shall mean trade secrets and confidential and proprietary business information of the Company, 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, other than any such information which has entered the public domain (unless such information entered the public domain through the efforts of or on account of the Management Investor).

"*Protected Shares*" shall have the meaning specified in Section 3.2(a) hereof.

"*Public Company*" shall mean the Company following an initial public offering of the Company's securities; that, as of the date of determination, the shares of Common Stock that have been sold in public offerings shall equal not less than 10% of the Fully Diluted Shares.

"*Registrable Securities*" shall mean Shares which are Stonington Shares, Management Shares (or which will, upon exercise of Options, become Management Shares), or which are held by any Persons to whom incidental registration rights may be granted after the Closing (regardless of whether such other Persons are granted demand registration rights). As to any particular Registrable Securities, once issued such securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (ii) such securities shall have been sold pursuant to Rule 144 (or any successor provision) under the Securities Act, (iii) such securities shall have been otherwise transferred and new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by the Company, (iv) such securities shall have ceased to be outstanding or (v) in the case of Shares held by a Management Investor, such securities shall have been transferred to any Person other than a Permitted Transferee of such Management Investor.

"*Registration Expenses*" shall mean any and all expenses incident to performance of or compliance with Article IV of this Agreement, including without limitation, (i) all SEC and stock exchange or National Association of Securities Dealers, Inc. registration and filing fees, (ii) all fees and expenses of complying with securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters in connection with blue sky qualifications of the Registrable Securities), (iii) all printing expenses, (iv) the fees and disbursements of counsel for the Company, of the Company's independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance, and of the counsel specified in Section 4.03, (v) any fees and disbursements of underwriters customarily paid by issuers or sellers of securities and the reasonable fees and expenses of any special experts retained in connection with the requested registration, including any fee payable to a qualified independent underwriter within the meaning of the rules of the National Association of Securities Dealers, Inc., but excluding underwriting discounts and commissions and transfer taxes, if any, (vi) the fees and disbursements of counsel for the Stockholders, and (vii) internal expenses of the Company (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties).

"*Restrictions*" shall have the meaning specified in Section 3.1(c) hereof.

"*Retirement*" shall mean with respect to any Management Investor his termination of employment, consultancy or directorship after attainment of age 65 or such other normal retirement age as may be in force from time to time or as may otherwise be approved by the compensation committee of the Board of Directors.

"*Sale*" shall mean any sale, assignment, transfer, distribution or other disposition of Shares or of a participation or other right therein, whether voluntarily or by operation of law.

"*SEC*" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

"*Securities Act*" shall mean the Securities Act of 1933, as amended, or any similar federal statute then in effect, and a reference to a particular section thereof shall be deemed to include a reference to the comparable section, if any, of any such similar federal statute.

"*Stock Option Agreements*" shall mean each Stock Option Agreement between the Company and the employee, consultant or director named therein evidencing a grant of Service Options and Performance Options.

"*Service Options*" shall mean Service Options granted from time to time pursuant to the Management Stock Option Plan.

"*Shares*" shall mean the shares of Common Stock, no par value per share, of the Company, including, without limitation, all Shares issued in connection with any employee benefit plan of the Company or its subsidiaries, including the Management Stock Option Plan.

"*Stockholders*" shall mean the beneficial owners from time to time of the Management Shares (including holders of Options granted under the Management Stock Option Plan) and the Stonington Shares and each beneficial owner individually shall be referred to as a " *Stockholder*."

"*Stonington Shares*" shall mean the Shares beneficially owned from time to time by Stonington.

"*Third Party*" shall mean, with respect to any Stockholder, and Person, other than (i) the Company, (ii) any Subsidiary of the Company or (iii) any Affiliate of such Stockholder or, in the case of the Management Investors, any Permitted Transferee.

"*Voluntary Resignation*" shall mean (a) the termination of a Management Investor's employment, consultancy or directorship with the Company or its subsidiaries by such Management Investor, other than for Retirement, death or Disability and other than under circumstances that constitute Involuntary Termination pursuant to clause (b) of the definition of such term and (b) in the event that such Management Investor has an agreement with the Company, as may otherwise be provided in such agreement.

ARTICLE II

TRANSFER RESTRICTIONS ON SHARES

Section 2.1. General Restrictions on Transfer. No Management Investor shall, without the prior written consent of the Company, directly or indirectly, sell, offer, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of (collectively, the "*transfers*") any Management Shares (or interests therein) except for transfers made in accordance with the provisions of Article III of the Management Subscription Agreement, Section 2.5 and either Section 2.2, 2.3, 2.4 or Article III or IV hereof. No transfer of Management Shares in violation of this Agreement shall be made or recorded on the books of the Company and any such transfer shall be void and of no effect. Options shall also be subject to the restrictions on transfer set forth in the Management Stock Option Plan.

Section 2.2. Certain Permitted Transfers. (a) Each of the Stockholders and the Company acknowledges and agrees that any of the following transfers of Management Shares (collectively, the "*Permitted Transfers*") are, subject to compliance with Section 2.5 hereof, deemed to be permitted transfers of such securities:

(i) a transfer of Management Shares upon the death of a Management Investor to his executors, administrators and testamentary trustees (the "*Management Investor's Estate*");

(ii) a transfer of Management Shares to the Management Investor's spouse, parents, children or grandchildren or to a trust, the sole beneficiaries of which are the Management Investor and/or such Management Investor's spouse, parents, children or grandchildren;

(iii) following an initial offering of Shares to the public pursuant to a securities registration statement (other than a registration statement on Form S-8 or any successor thereto) (an "*IPO*"), (1) a transfer of Management Shares in accordance with the provisions of paragraph (e) of Rule 144 (or any successor to such rule) promulgated under the Securities Act (as if such Shares were "restricted" securities sold by an "affiliate" of the Company, as such terms are defined in such rule) or (2) a pledge of Management Shares to a financial institution as security for money borrowed from such financial institution; provided, however, that the restriction set forth in subclause (1) shall terminate with respect to any Management Shares owned by a Management Investor upon the termination of such Management Investor's employment, consultancy or directorship with the Company; and

(iv) a transfer of Management Shares to the Company;

provided that no transfers pursuant to Section 2.2(a)(i) or (a)(ii) shall be permitted (and any such transfer shall be void and of no effect) unless and until the applicable transferee shall agree in writing, in form and substance reasonably satisfactory to the Company, to become bound, and becomes bound, by all the terms of this Agreement to the same extent as a Management Investor is so bound, and unless and until the Company is satisfied in its reasonable discretion that the certificates representing interests of any such trust or other transferee have been legended, or other appropriate provision has been made, to restrict the transfer of such interests to the same extent as transfers of Shares held by Management Investors are restricted hereunder. The Management Investor's Estate and each Person to whom Management Shares may be transferred pursuant to Section 2.2(a)(i) and (a)(ii) are hereinafter sometimes referred to as a " *Permitted Transferee*" of such Management Investor.

Section 2.3. Rights to Participate in Certain Sales. (a) (i) So long as the Company is not a Public Company, neither Stonington nor any of its Affiliates shall, directly or indirectly, make any Sale of Shares held by them constituting more than thirty percent (30%) of the outstanding Shares to any Third Party or Third Parties (a "*Covered Tag-Along Transaction*"), unless the terms and conditions of such Sale shall include an offer to include, at the option of the Other Stockholders, in such Sale to the Third Party or Third Parties, the number of Shares then owned by such Other Stockholders, as determined by Section 2.3(a)(iii).

(ii) If, so long as the Company is not a Public Company, if Stonington and/or any of its Affiliates receives from a Third Party or Third Parties a bona fide offer or offers to purchase or otherwise acquire (for purposes of this Section 2.3 an " *Offer*") any Shares held by Stonington or such Affiliates (for purposes of this Section 2.3, the "*Offered Shares*") that, together with Shares previously disposed of by Stonington or any of such Affiliates to Third Parties aggregate more than thirty percent (30%) of the than outstanding Shares (such Shares, together with the Offered Shares, for purposes of this Section 2.3, the "*Tag-Along Shares*"), and Stonington and/or such Affiliates intends to sell such Offered Shares to such Third Party or Third Parties, then Stonington and such Affiliate (for purposes of this Section 2.3, the "*Prospective Sellers*") shall jointly provide written notice (for purposes of this Section 2.3, the "*Offer Notice*") of such Offer to each of the Other Stockholders not later than thirty (30) days prior to the consummation of the Sale contemplated by the Offer. The Offer Notice shall identify the Offered Shares, the price offered for such Offered Shares (for purposes of this Section 2.3, the " *Offer Price*"), all other material terms and conditions of the Offer and, in the case of an Offer in which the consideration payable for Offered Shares consists in whole or in part of consideration other than cash, such information relating to such other consideration as may be reasonably necessary to ascertain the value of such other consideration.

(iii) Each of the Other Stockholders shall have the right and option (a " *Tag-Along Right*"), for the period often (10) days after the date the Offer Notice is given (for purposes of this Section 2.3, the "*Notice Period*"), to notify the Prospective Sellers of such Other Stockholder's interest in selling or otherwise disposing of up to the Pro Rata Portion of such Other Stockholder's Shares pursuant to the Offer. For purposes of this subsection 2.3, "*Pro Rata Portion*" means, with respect to each Other Stockholder, a number of Fully Diluted Shares equal to the product of (x) the total number of Fully Diluted Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Tag-Along Shares, and the denominator of which shall be the total number of Shares owned by the Prospective Sellers on the date of the first sale of Tag-Along Shares.

(iv) Each Other Stockholder desiring to sell such Other Stockholder's Pro Rata Portion of Shares pursuant to this Section 2.3 shall, prior to the expiration of the Notice Period, provide the Prospective Sellers with a written notice specifying the number of Shares as to which such Other Stockholder has an interest in selling or otherwise disposing of pursuant to the Offer (for purposes of this Section 2.3, a " *Notice of Interest*"), and shall deliver to the Prospective Sellers, to be held in trust, (A) the certificate or certificates evidencing the Shares to be sold or otherwise disposed of by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to the Prospective Sellers executed by such Other Stockholder, (B) an instrument of assignment reasonably satisfactory to the Prospective Sellers assigning, as of the consummation of the Sale to the Third Party or Third Parties, all of such Other Stockholder s rights under this Agreement with respect to the Shares to be sold or otherwise disposed of (to the extent assignable), (C) a special irrevocable power-of-attorney authorizing the Prospective Sellers, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer (at a price equal to the Offer Price) and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that the Prospective Sellers shall not have the authority to incur or create liabilities or to give representations or warranties on behalf of such Other Stockholder, and (D) wire transfer instruction for payment of the purchase price (if cash) for the purchase of the Other Stockholder's Shares. Delivery of such certificate or certificates evidencing the Shares to be sold, the instrument of assignment, the special irrevocable power of attorney authorizing the Prospective Sellers and wire transfer instructions, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares shall constitute an irrevocable election by such Other Stockholder to authorize and permit the Prospective Sellers to sell such Shares, on behalf of such Other Stockholder, pursuant to the Offer. The Prospective Sellers shall cause the Third Party to whom or which the Shares of the Other Stockholders are being sold or otherwise disposed of to deliver the appropriate purchase price for the purchase of such Shares to the Other Stockholders, against delivery of the Shares being sold or otherwise disposed of.

(v) Each Stockholder shall bear such Stockholder's own expenses in connection with any such Sale pursuant to this Section 2.3.

(vi) If at the end of the Notice Period any Other Stockholder shall not have given a Notice of Interest (and delivered all other required documents) with respect to some or all of such Other Stockholder's Shares, such Other Stockholder will be deemed to have waived all of such Other Stockholder's rights under this Section 2.3 with respect to the portion of such Other Stockholder's Shares for which a Notice of Interest shall not have been given. If, at the end of the 180-day period following the giving of the Offer Notice, the Prospective Sellers shall not have completed the Sale of all the Offered Shares and the Shares with respect to which any Other Stockholders shall have given Notices of Interest pursuant to this Section 2.3, the Prospective Sellers shall return to such Other Stockholders all certificates evidencing the unsold Shares that such Other Stockholders delivered for Sale pursuant to this Section 2.3 and such Other Stockholders related instruments of assignment and powers-of-attorney and the Prospective Sellers shall not consummate the Sale with such Third Party or Third Parties without again complying with the terms and procedures set forth in this Section 2.3, including providing to the Other Stockholders another Offer Notice.

(vii) Except as expressly provided in this Section 2.3, no Prospective Seller shall have any obligation to any Other Stockholder with respect to the Sale of any Shares owned by Other Stockholder in connection with this Section 2.3. Anything herein to the contrary notwithstanding and irrespective of whether any Notice of Interest shall have been given, no Prospective Seller shall have any obligation to any Other Stockholder to sell or otherwise dispose of any Offered Shares pursuant to this Section 2.3 as a result of any decision by such Prospective Seller not to accept or consummate any Offer or Sale with respect to the Offered Shares (it being understood that any and all such decisions shall be made by such Prospective Seller in its sole discretion). Except as otherwise permitted herein, no Other Stockholder shall be entitled to sell or otherwise dispose of Shares directly to any Third Party or Third Parties pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 2.3).

(b) Anything in this Section 2.3 to the contrary notwithstanding, in the event that Stonington and/or its Affiliates shall exercise their rights under Section 2.4, the Other Stockholders shall thereafter have no right pursuant to this Section 2.3 to participate in any Sale pursuant to this Section 2.3 with respect to the Sale the subject of Section 2.4. Nothing in this Section 2.3 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

SECTION 2.4. "Drag-Along" Rights. (a) Prior to such time as the Company is a Public Company, if Stonington and/or any of its Affiliates shall, in any transaction or series of related transactions (a "*Drag-Along Covered Transaction*"), directly or indirectly, propose to make a Sale of Shares constituting more than thirty percent (30%) of the Fully Diluted Shares (for purposes of this Section 2.4, the "*Controlling Shares*") to a Third Party or Third Parties (for purposes of this Section 2.4, an "*Offer*"), Stonington and/or such Affiliates may, at their option, require each of the Other Stockholders to sell the Pro Rata Portion of such Stockholder's Shares to such Third Party or Third Parties for the same consideration per Share and otherwise upon the same terms and conditions upon which Stonington and/or such Affiliates sell their Shares (a "*Drag-Along Right*"). For purposes of this Section 2.4, "*Pro Rata Portion*" means, with respect to each Other Stockholder, a number of Shares equal to the product of (x) the total number of Fully Diluted Shares then owned by such Other Stockholder, multiplied by (y) a fraction, the numerator of which shall be the total number of Shares proposed to be sold by Stonington and/or such Affiliates, and the denominator of which shall be the total number of such Stockholder's Shares then owned by Stonington and/or its Affiliates.

(b) (i) Stonington and/or such Affiliates shall provide a written notice (for purposes of this Section 2.4, the "*Offer Notice*") of such Offer to each of the Other Stockholders not later than the fifteenth Business Day prior to the consummation of the Sale contemplated by the Offer. The Offer Notice shall contain written notice of the exercise of the "drag-along" rights of Stonington and/or its Affiliates pursuant to Section 2.4(a), setting forth the consideration per Share to be paid by the Third Party or Third Parties and the other material terms and conditions of the Offer. Within ten (10) Business Days following the date the Offer Notice is given, each of the Other Stockholders shall deliver to Stonington and/or such Affiliates, to be held in trust, (A) the certificate or certificates evidencing the Pro Rata Portion of Shares owned or held by such Other Stockholder duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to Stonington and/or such Affiliate executed by such Other Stockholder, (B) a special irrevocable power-of-attorney authorizing Stonington and/or such Affiliate, on behalf of such Other Stockholder, to sell or otherwise dispose of such Shares pursuant to the terms of the Offer and to take all such actions as shall be necessary or appropriate in order to consummate such Sale; provided, however, that Stonington and/or such Affiliate shall not have the authority to incur or create liabilities or to give representations and warranties on behalf of such Other Stockholder, and (C) wire transfer instructions for payment of the purchase price of the Other Stockholder's Shares; provided that no Other Stockholder shall have any liability to any purchaser of the Shares pursuant to the Offer in excess of the aggregate proceeds received by such Other Stockholder in exchange for such

Stockholder's Shares or in a manner that is disproportionate or different from Stonington and its Affiliates. Stonington and/or such Affiliate shall cause the Third Party to whom or which the Shares of the Stockholders are being sold or otherwise disposed to deliver the appropriate amount of immediately available funds for the purchase of such Shares to the Other Stockholders pursuant to the wire transfer instructions described in clause (C) above. If in connection with such Sale, Stonington and/or such Affiliate are to receive consideration other than cash, Cash Equivalents or Marketable Securities, each Other Stockholder shall have the right to elect to receive in lieu thereof cash or Cash Equivalents equal to the Fair Value of the consideration otherwise payable to such Other Stockholder. Such Other Stockholder shall make such election in a written notice to Stonington and/or such Affiliate within ten (10) Business Days following the date the Offer Notice is provided to such Other Stockholder.

(ii) Each Stockholder shall bear such Stockholder's own expenses incurred in connection with a Sale pursuant to this Section 2.4.

(iii) If, at the end of the 180-day period following the giving of the Offer Notice, Stonington and/or its Affiliates shall not have completed the Sale of all the Controlling Shares and the Other Stockholders' Shares delivered pursuant to Section 2.4(b)(i), Stonington and/or its Affiliates shall return to each of the Other Stockholders all certificates evidencing unsold Shares and related powers-of-attorney that such Other Stockholder delivered pursuant to this Section 2.4.

(iv) Except as expressly provided in this Section 2.4, Stonington and its Affiliates shall have no obligation to any Other Stockholder with respect to the Sale of any Shares owned by any Other Stockholder in connection with this Section 2.4. Anything herein to the contrary notwithstanding, Stonington and/or its Affiliates shall have no obligation to any Stockholder to sell or otherwise dispose of any Controlling Shares pursuant to this Section 2.4 as a result of any decision by Stonington and/or its Affiliates not to accept or consummate any Offer or Sale with respect to the Controlling Shares (it being understood that any and all such decisions shall be made by Stonington and/or its Affilaites in their sole discretion). No Other Stockholder shall be entitled to make any Sale of Shares directly to any Third Party pursuant to an Offer (it being understood that all such Sales shall be made only on the terms and pursuant to the procedures set forth in this Section 2.4). Nothing in this Section 2.4 shall affect any of the obligations of any of the Stockholders under any other provision of this Agreement.

(c) For purposes of Sections 2.3(a) or (b) and 2.4(a) or (b), to the extent that Shares issuable upon exercise of a vested Option granted under the Management Stock Option Plan are to be sold pursuant to the exercise of a Tag-Along Right or Drag-Along Right, the holders of such vested Options shall be required to exercise their vested Options, but not until all conditions to the commitment by the Third Party to purchase the Shares into which such vested Options are exercisable pursuant to the exercise of a Tag-Along Right or Drag-Along Right have been satisfied or waived; provided, however, that in the event that the consideration to be paid in as a result of the occurrence of the Tag-Along Covered Transaction and the Drag-Along Covered Transaction consists of cash, the holders of vested Options, in lieu of exercise thereof, may deliver such vested Options to the Third Party and receive in exchange therefor an amount equal to the amount paid per Share less the then applicable Option Price in respect of such vested Option.

(d) Notwithstanding anything to the contrary contained in Section 2.3 or this Section 2.4, a Management Investor shall not be entitled to exercise any Tag-Along Rights on and after the date of such Management Investor's termination of employment, consultancy or directorship for Cause or Voluntary Resignation with the Company or any of its subsidiaries. Notwithstanding anything to the contrary, nothing contained in Section 2.3 or this Section 2.4 should be construed as resulting in accelerated vesting of Service Options or Performance Options.

Section 2.5. Securities Law Restriction, Legend on Certificates. Without limiting the provisions of Section 2.1 or 2.2 hereof, no Stockholder shall make any transfer of any shares of capital stock of the Company (or interest therein) if such action would constitute a violation of any federal or state securities or blue sky laws, or if (other than in the case of a transfer by Stonington) such transfer would subject the Company to any reporting obligations under the Exchange Act. No transfer of any shares of capital stock of the Company shall be effective (other than in connection with transfers pursuant to Article IV hereof) unless the Company, upon its request, has been furnished with an opinion of counsel for the Stockholder, which opinion and counsel shall be reasonably satisfactory to the Company, to the effect that such transfer is exempt from the registration provisions of Section 5 of the Securities Act and the rules and regulations in effect thereunder and such transfer can be effected without similar registration under applicable state securities or "blue sky" laws. Any such opinion may be delivered by counsel to the Company, and, in the case of any transfer pursuant to a Drag-Along Right, shall be delivered by counsel to the Company. Any attempt to transfer any Shares (or interest therein) not in accordance with this Agreement shall be null and void and neither the Company nor any transfer agent of such securities shall transfer upon the books of the Company any shares of capital stock of the Company to any Person unless such transfer or attempted transfer is permitted by this Agreement. Each certificate representing Shares shall bear the following legend, in addition to any legends required under any applicable state securities or "blue sky" laws:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE (AND ANY INTEREST THEREIN) MAY NOT BE TRANSFERRED, OFFERED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED, ENCUMBERED OR OTHERWISE DISPOSED OF UNLESS SUCH TRANSFER, SALE, OFFER, ASSIGNMENT, PLEDGE, HYPOTHECATION, ENCUMBRANCE OR OTHER DISPOSITION COMPLIES WITH THE PROVISIONS OF A MANAGEMENT STOCKHOLDERS AGREEMENT DATED AS OF **[Date]** (A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF LINCOLN TECHNICAL INSTITUTE, INC. AND WILL BE MAILED TO A STOCKHOLDER WITHOUT CHARGE WITHIN FIVE DAYS AFTER RECEIPT BY LINCOLN TECHNICAL INSTITUTE, INC. OF A WRITTEN REQUEST THEREFOR FROM SUCH STOCKHOLDER). NO TRANSFER, OFFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION, ENCUMBRANCE OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE (OR INTEREST THEREIN) MAY BE MADE EXCEPT AS OTHERWISE PROVIDED IN SUCH MANAGEMENT STOCKHOLDERS AGREEMENT AND (A) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 (THE "*ACT*") AND ANY APPLICABLE STATE SECURITIES

AND “BLUE SKY” LAWS, OR (B) IF LINCOLN TECHNICAL INSTITUTE, INC., UPON ITS REQUEST, HAS BEEN FURNISHED WITH AN OPINION OF COUNSEL FOR THE HOLDER, WHICH OPINION AND COUNSEL SHALL BE REASONABLY SATISFACTORY TO LINCOLN TECHNICAL INSTITUTE, INC., TO THE EFFECT THAT SUCH TRANSFER, SALE, OFFER, ASSIGNMENT, PLEDGE, HYPOTHECATION, ENCUMBRANCE OR OTHER DISPOSITION IS EXEMPT FROM THE REGISTRATION PROVISIONS OF SECTION 5 OF THE ACT AND THE RULES AND REGULATIONS IN EFFECT THEREUNDER AND ANY SIMILAR REGISTRATION REQUIREMENT UNDER SUCH STATE SECURITIES OR “BLUE SKY” LAWS.

ARTICLE III

PUT AND CALL RIGHTS

Section 3.1. Put Rights, (a) Upon termination of a Management Investor’s employment, consultancy or directorship with the Company or any of its subsidiaries due to death, Disability, Retirement or Involuntary Termination of the Management Investor (but not for any other reason) (a “ *Put Event*”) prior to an IPO, such Management Investor and his Permitted Transferees shall have the right (the “ *Put Right*”), exercisable by delivery of a written notice (the “*Put Notice*”) to the Company within a period of 290 calendar days after the date of occurrence of the Put Event (the “ *Put*” *Notice Period*”), subject to Section 3.1(c) hereof, to require the Company to purchase all, but not less than all, of the Management Shares, provided that any Management Shares granted pursuant to Options have to be held for at least six months by such Management Investor, the Management Investor’s Estate and his Permitted Transferees (the “*Put Shares*”), as of the date of the occurrence of the Put Event, at a price per Put Share equal to the Share Put Price, and upon receipt of such notice the Company shall purchase such Put Shares, subject to the terms hereof. For purposes of this Section 3.1, the term “ *Share Put Price*” shall mean the Fair Value Price of each Put Share on the date of occurrence of such Put Event.

(b) The Put Notice shall specify the number of Put Shares to be sold and shall contain an irrevocable offer (subject to the last sentence of this paragraph (b)) to sell the Put Shares to the Company in the manner set forth below at the applicable Share Put Price. The closing of the purchase by the Company of Put Shares shall take place at the principal executive office of the Company on a date selected by the Company as soon as practicable after the date of the Put Notice. At such closing, the Company shall deliver to the Management Investor, Management Investor’s Estate, or his or her Permitted Transferees against delivery of Duly Endorsed certificates representing such Put Shares, either (i) a certified check or checks in the amount of the product of (x) the applicable Share Put Price and (y) the number of Put Shares to be sold or (ii) a junior subordinated note of the Company, maturing no later than the fifth anniversary of the closing referred to in this paragraph, bearing a market rate of interest as determined by the Board of Directors, as of the date of such note (the “*Company Note Interest Rate*”) (which such interest shall be payable at the option of the Company in cash or in additional junior subordinated notes of like terms and tenor), (a “*Company Note*”) with an original principal amount equal to the product of (x) the applicable Share Put Price and (y) the number of Put Shares to be sold or (iii) any combination of (i) and (ii) above as may be selected by the

Company, provided that the sum of (x) the amount of cash and (y) the original principal amount of the Company Note equals the product of (u) the applicable Share Put Price and (v) the number of Put Shares to be sold; and provided further, however, that the Company shall pay cash for the Put Shares to the extent that no Restriction (as defined in Section 3. l(c) below) exists or would result. As soon as practicable prior to such closing, the Company shall notify the Management Investor whether any part of the consideration to be paid by the Company at such closing will be a Company Note. If any portion of such consideration will be paid by a Company Note, the Management Investor may withdraw all (but not less than all) of his Put Shares and the Put Right related to such Put Shares shall be deemed not to have been exercised until such time as the Company (or its designee pursuant to Section 3.1(f) hereof) acquires such Put Shares for cash, pursuant to Section 3.1(e) hereof.

(c) Notwithstanding anything to the contrary contained in this Agreement, (i) to the extent that the payment for Put Shares with either cash or through the incurrence of indebtedness pursuant to the issuance of a Company Note (x) would constitute or cause a breach of, or default (immediately or with notice or the lapse of time or both) under any agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective assets is bound (including, without limitation, the Bank Credit Agreement (and including, without limitation, any financial covenant contained in either thereunder)) and any refinancings of any of the foregoing, or under any preferred stock of the Company or any of its subsidiaries, or (y) would violate any law, regulation, order, statute, writ, injunction, decree, rule, policy or guideline promulgated, or judgment entered by any federal, state, local or foreign court or governmental authority then applicable to the Company or any of its subsidiaries or by or to which any of their respective assets is subject, or (ii) if any default, event of default or breach then exists under any of the foregoing agreements, instruments or preferred stock (collectively, the "*Restrictions*"), subject to the further provisions of this Section 3.1, the Company shall not be required to purchase such Put Shares.

(d) To the extent that the Restrictions limit but do not preclude the Company from acquiring any Put Shares (and if no default, event of default or breach referred to in clause (ii) of the definition of Restrictions then exists), the Company shall acquire such Put Shares on the date specified herein to the extent permitted pro rata from each Management Investor or Permitted Transferee who or which has exercised a Put Right on such date pursuant to Section 3.1(a) hereof in accordance with the number of such Put Shares the Company is required to purchase from each such Management Investor or Permitted Transferee, and to the extent that there is no Restriction, the Company shall pay for such Put Shares by certified check.

(e) To the extent that Put Shares as to which a Put Notice has been delivered are not purchased by the Company in accordance with Section 3.1(c) and (d) hereof or are not purchased because the Management Investor has withdrawn the related Put Notice pursuant to Section 3.1(b) hereof, the Company shall acquire such Put Shares on the tenth business day after such date as the Company learns that it is no longer restricted by such Restriction from acquiring (for cash, in the event of a withdrawal pursuant to Section 3.1(b) hereof) all such Put Shares. The price to be paid to acquire such Put Shares shall be the amount that would have been paid pursuant to Section 3.1(a) hereof if such acquisition had not been delayed plus interest at the Company Note Interest Rate, compounded annually, from such date of exercise.

(f) Notwithstanding anything to the contrary contained in this Section 3.1, to the extent a Restriction then exists, the Company may, but shall not be required to, at any time prior to the consummation of the purchase of the Put Shares pursuant to this Section 3.1, cause its designee or designees (which may include, without limitation, Stonington or any of its Affiliates) to consummate all or a portion of such purchase pursuant to the terms and conditions of this Section 3.1, and, in such event, such designee or designees shall purchase such Put Shares by delivering to the Management Investors or Permitted Transferees a certified check in the amount of the product of (x) the applicable Share Put Price and (y) the number of Put Shares to be sold. If the Company does not elect to cause its designee or designees to consummate all or a portion of the purchase of the Put Shares, the Company shall provide notice to all the Management Investors and permit them to consummate all or a portion of the purchase of the Put Shares. Each Management Investor desiring to purchase Put Shares shall indicate the number of Put Shares he or she is interested in purchasing (the " *Accepted Put Shares*"), and shall be required to purchase such number of Accepted Put Shares, or if the aggregate number of Accepted Put Shares requested to be purchased by all the Management Investors exceeds the number of Put Shares available for purchase, such lesser number of Accepted Put Shares determined by multiplying the number of Put Shares available for purchase by a fraction, the numerator of which is the number of Accepted Put Shares and the denominator of which is the aggregate number of Accepted Put Shares of all of the Management Investors.

Section 3.2. Call Rights. (a) Subject to any applicable Restriction, upon termination of a Management Investor's employment, consultancy or directorship with the Company or any of its subsidiaries for any reason (a " *Call Event*"), prior to an IPO, the Company shall have the right (the " *Call Right*"), exercisable by delivery of a written notice (the " *Call Notice*") to such Management Investor or such Management Investor's Estate or Permitted Transferee within a period of one year after the date of occurrence of any Call Event arising other than as a result of the death of the Management Investor and within a period of six months of the death of the Management Investor in the event of a Call Event arising, as a result of the death of the Management Investor (subject, in either such case, to extension for up to three months in the event any Restriction is then in effect or for such other period as provided in Section 3.2(d) hereof) (the "*Call Notice Period*"), to require such Management Investor or such Management Investor's Estate and Permitted Transferees to sell all or any portion of the Management Shares, provided that any such Management Shares received pursuant to the grant of Options have been held for at least six months owned by such Management Investor or Permitted Transferees (the " *Call Shares*") at a price per Call Share equal to the Share Call Price, and upon receipt of such notice the Management Investor who receives such notice shall sell such Call Shares subject to the terms hereof. For purposes of this Section 3.2. the term "*Share Call Price*" shall mean, as determined as of the date of the delivery of the applicable Call Notice, (i) in the event of a termination for Cause, the lesser of the original per share purchase price and the Fair Value Price of the Call Shares; (ii) in the event of a Voluntary Resignation (y) as to Call Shares that are Protected Shares (as defined below) on the date of the occurrence of the Call Event, the Fair Value Price of the Call Shares determined as of the date of the occurrence of the Call Event and (z) as to Call Shares that are not Protected Shares on the date of the occurrence of the Call Event, the lesser of the original per share purchase price and the Fair Value Price; and (iii) in the event of a termination of employment due to death, Disability, Retirement or Involuntary Termination, the Fair Value Price of the Call Shares. Twenty percent of each Management Investor's Management Shares shall become "Protected Shares" on each of the first through fifth anniversaries of the date the Shares are issued, (the " *Protected Shares*"); provided, however, that the Board of Directors may in its sole discretion, provide that twenty-five percent of certain management Investor's Management Shares shall become protected Shares on each of the first through the fourth anniversaries of the date such shares are issued. All Management Shares received pursuant to the exercise of Vested Options shall immediately be Protected Shares. In the event of a Change in Control (as defined in the Management Stock Option Plan) all of the Management Investor's Management Shares will immediately become Protected Shares.

(b) The Call Notice shall specify the number of Call Shares to be purchased and shall contain an offer to purchase the Call Shares at the applicable Share Call Price. The closing of the acquisition by the Company of Call Shares shall take place at the principal executive office of the Company on a date selected by the Company as soon as practicable after the date of the Call Notice. At such closing, the Company shall deliver to the Management Investor or such Management Investor's Estate or Permitted Transferees, against delivery of Duly Endorsed certificates representing such Call Shares a certified check or checks in the amount of the product of (x) the applicable Share Call Price and (y) the number of Call Shares to be purchased; provided, however, that in the case of termination of employment, consultancy or directorship of a Management Investor for Cause, the Company may acquire Call Shares for a Company Note with an aggregate principal amount equal to the product of (x) the applicable Share Call Price and (y) the number of Call Shares and/or Call Options to be purchased. The Company shall not be required to consummate any purchase or acquisition of any Call Shares if any Restriction is then in effect and all of the Company's obligations with respect thereto shall thereupon cease.

(c) Notwithstanding anything to the contrary contained in this Section 3.2, if a Restriction prevents the acquisition by the Company of Call Shares the Company may, but shall not be required to, at any time prior to the consummation of the purchase of the Call Shares pursuant to this Section 3.2 cause its designee or designees to consummate all or a portion of such purchase pursuant to the terms and conditions of this Section 3.2 and, in such event, such designee or designees shall purchase such Call Shares by delivering to the Management Investor or Permitted Transferees a certified check in the amount of the product of (x) the applicable Share Call Price and (y) the number of Call Shares to be purchased.

Section 3.3. Termination of Put and Call Rights. Notwithstanding anything to the contrary contained herein, no Put Right or Call Right shall be exercisable after an IPO.

ARTICLE IV

REGISTRATION RIGHTS

SECTION 4.01. Incidental Registration.

If at any time the Company determines that it shall file a registration statement under the Securities Act (other than a registration statement on a Form S-4 or S-8 or filed in connection with an exchange offer or an offering of securities solely to the Company's employee benefit plans) on any form that would also permit the registration of the Registrable Shares and such filing is to be on behalf of the Company and/or on behalf of selling holders of its securities for the general registration of its Common Stock to be sold for cash, the Company shall each such time promptly give each Other Stockholder written notice of such determination setting forth the date on which the Company proposes to file such registration statement, which date shall be no earlier than thirty (30) days from the date of such notice, and advising each Other Stockholder of its right to have such Other Stockholder's Registrable Shares included in such registration; provided that the Other Stockholders shall not have any right to have their Registrable Shares included in the initial public offering of the Company if no other Stockholder has its Registrable Shares so included. Upon the written request of any Other Stockholder received by the Company no later than fifteen (15) days after the date of the Company's notice, the Company shall use all reasonable efforts to cause to be registered under the Securities Act all of the Registrable Shares that each Other Stockholder has so requested to be registered. If, in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Stockholders), the total amount of such securities to be so registered, including such Registrable Shares, will exceed the maximum amount of the Company's securities which can be marketed (i) at a price reasonably related to the then current market value of such securities, or (ii) without otherwise materially and adversely affecting the entire offering, then the Company shall be entitled to reduce the number of Registrable Shares to be sold in the offering by the Other Stockholders, and any other stockholders of the Company exercising incidental registrations rights similar to those set forth herein, to that number which in the written opinion of the managing underwriter (or, in the case of a non-underwritten offering, as reasonably determined by the Board and communicated in writing to the Other Stockholders) would permit all such securities (including Shares held by any other stockholder of the Company who proposes to exercise such incidental registration rights) to be so marketed. Such reduction shall be allocated among the Other Stockholders in proportion (as nearly as practicable) to the amount of Registrable Shares owned by each such Other Stockholder and the number of Shares owned by any other stockholders of the Company which are sought to be included in the registration statement by such other stockholders of the Company, all measured at the time of filing the registration statement.

SECTION 4.02. Furnish Information.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.01 that the Other Stockholders shall furnish to the Company such information regarding themselves, the Registrable Shares held by them, and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

SECTION 4.03. Expenses of Registration.

All expenses incurred in connection with each registration pursuant to Section 4.01, excluding underwriters' discounts and commissions, but including without limitation all registration, filing and qualification fees, word processing, duplicating, printers' and accounting fees (including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance), fees of the National Association of Securities Dealers, Inc. or listing fees, messenger and delivery expenses, all fees and expenses of complying with state securities or blue sky laws, fees and disbursements of counsel for the Company, and the fees and disbursements of one counsel for the selling Other Stockholders (which counsel shall be selected by the Other Stockholders holding a majority in interest of the Registrable Shares being registered), shall be paid by the Company. The Other Stockholders shall bear and pay the underwriting commissions and discounts applicable to securities offered for their account in connection with any registrations, filings and qualifications made pursuant to this Agreement.

SECTION 4.04. Underwriting Requirements.

In connection with any underwritten offering, the Company shall not be required under Section 4.01 to include Registrable Shares in such underwritten offering unless the Other Stockholders holding such Registrable Shares accept the terms of the underwriting of such offering that have been reasonably agreed upon between the Company and the underwriters selected by the Company and which are customary with respect to such an offering and not inconsistent with this Article IV. No such Other Stockholder shall be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Other Stockholder, such Other Stockholders' Registrable Shares and such Stockholders' intended method of distribution customarily given to underwriters and any other representation required by law.

SECTION 4.05. Registration Procedures.

If and whenever the Company is required by the provisions of Section 4.01 to effect the registration of any Registrable Shares under the Securities Act, the Company shall, as expeditiously as possible:

(a) furnish to each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in such registration statement filed under Rule 424 under the Securities Act, and such other documents, as such Other Stockholder and underwriter may reasonably request in order to facilitate the public sale or other disposition of such Registrable Shares;

(b) use all reasonable efforts to register or qualify all Registrable Shares covered by such registration statement under such other securities laws or blue sky laws of such jurisdictions as any Other Stockholder thereof and any underwriter thereof shall reasonably request; and

(c) notify each Other Stockholder of Registrable Shares covered by such registration statement and each underwriter thereof, if any, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon the Company's discovery that, or upon the happening of any event of which the Company has knowledge as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such Other Stockholder or such underwriter promptly prepare and furnish to such Other Stockholder or such underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

SECTION 4.06. Rule 144 Information.

With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Shares to the public without registration, at all times after ninety (90) days after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(ii) use its reasonable efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) furnish to each Other Stockholder holding Registrable Shares forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of such Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such Other Stockholder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Other Stockholder to sell any Registrable Shares without registration.

SECTION 4.07. Indemnification.

In the event any Registrable Shares are included in a registration statement under Section 4.01:

(a) The Company shall indemnify and hold harmless each Other Stockholder, such Other Stockholder's managers, directors and officers, each Person who participates in the offering of such Registrable Shares, including underwriters (as defined in the Securities Act), and each Person, if any, who controls such Stockholder or participating Person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which they may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder, and shall reimburse each such Other Stockholder, such Other Stockholder's managers, directors and officers, such participating person or controlling person for any legal or other expenses reasonably incurred by them (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); provided further that the Company shall not be liable to any Other Stockholder, such Other Stockholder's managers, directors and officers, participating person or controlling person in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in connection with such registration statement, preliminary prospectus, final prospectus or amendments or supplements thereto, in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Other Stockholder, such Other Stockholder's directors and officers, participating, person or controlling person. Such indemnity shall remain in full force regardless of any investigation made by or on behalf of any such Other Stockholder, such Other Stockholder's directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Other Stockholder.

(b) Each Other Stockholder joining in a registration severally and not jointly shall indemnify and hold harmless the Company, each of its directors and officers, each person, if any, who controls the Company within the meaning of the Securities Act, and each agent and any underwriter for the Company (within the meaning of the Securities Act) against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, controlling person, agent or underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, or amendments or supplements thereto, in reliance upon and in conformity with written information furnished by or on behalf of such Other Stockholder expressly for use in connection with such registration; and each such Other Stockholder shall reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, agent or underwriter (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 4.07(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Other Stockholder (which consent shall not be unreasonably withheld), and provided further that the liability of each Other Stockholder hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the net proceeds from the sale of the Shares sold by such Other Stockholder under such registration statement bears to the total net proceeds from the sale of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Other Stockholder from the sale of Registrable Securities covered by such registration statement.

(c) Promptly after receipt by an indemnified party under this Section 4.07 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 4.07, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party; provided, however, that an indemnified party shall have the right to retain its own counsel, with all reasonable fees and expenses thereof to be paid by such indemnified party, and to be apprised of all progress in any proceeding the defense of which has been assumed by the indemnifying party. The failure to notify an indemnifying party promptly of the commencement of any such action, if and to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 4.07, but the omission so to notify the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 4.07.

(d) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages or liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.07(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 1l(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

ARTICLE V

MISCELLANEOUS

Section 5.1. Binding Effect. The provisions of this Agreement shall be binding upon the parties hereto and their respective heirs, legal representatives, successors and assigns.

Section 5.2. No Right of Employment; Consultancy or Directorship . Neither this Agreement nor any purchase or sale of Management Shares shall create, or be construed or deemed to create, any right of employment in favor of any person or any right to be elected a director of the Company's Board of Directors by the Company or any of its subsidiaries or limit in any respect the right of the Company or any of its subsidiaries to terminate any person's employment, consultancy or directorship at any time.

Section 5.3. Recapitalizations, Exchanges, Etc. Affecting Shares. The provisions of this Agreement regarding Shares shall apply to any and all shares of capital stock of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets, reorganization or otherwise) which may be issued in respect of, in exchange for, or in substitution of the Shares by reason of any stock dividend, stock split, stock issuance, reverse stock split, combination, recapitalization, reclassification, merger, consolidation or otherwise. Upon the occurrence of any of such events, amounts hereunder shall be appropriately adjusted. Subject only to the provisions of the preceding sentence, nothing contained in this Agreement shall prohibit or restrict the Company from taking any corporate action, including, without limitation, declaring any dividend (whether in cash or stock) or engaging in any corporate transaction of any kind, including, without limitation, any merger, consolidation, liquidation or sale of assets.

Section 5.4. Waiver and Amendment. Any party hereto may waive its rights under this Agreement at any time, and the Company may waive its rights under this Agreement with respect to any Stockholder or group of Stockholders at any time, and no such waiver shall operate to waive the Company's rights under this Agreement with respect to any other Stockholder or group of Stockholders. Any agreement on the part of any such party to any such waiver shall be valid only if set forth in an instrument in writing signed by such party. This Agreement may be amended only by a written instrument signed by (i) the Company, (ii) Stonington and (iii) Management Investors or Permitted Transferees beneficially owning at least a majority of the then outstanding Management Shares.

Section 5.5. Notices. All notices and other communications provided for herein shall be dated and in writing and shall be deemed to have been duly given when delivered, if delivered personally, or when deposited in the mail if sent by registered or certified mail, return receipt requested, postage prepaid and when received if delivered otherwise, to the party to whom it is directed:

(a) if to the Company, to:

Lincoln Technical Institute, Inc.
200 Executive Drive
West Orange, NJ 07052
Telecopy: (973) 243-0841
Attention: David F. Carney

with a copy to:

Stonington Partners, Inc.
767 Fifth Avenue, 48th Floor
New York, New York 10153
Attention: James J. Burke, Jr.

and a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Attention:

(b) if to any of the Management Investors, to the address of such Management Investor as shown in the stock record book of the Company;

(c) if to Stonington to:

Stonington Partners, Inc.
767 Fifth Avenue 48th Floor
New York, New York 10153
Attention: James J. Burke, Jr.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Attention: John J. Cannon, III, Esq.

Section 5.6. Applicable Law. The laws of the State of New York without reference to the choice of law principles thereof shall govern the interpretation, validity and performance of the terms of this Agreement, regardless of the law that might be applied under principles of conflicts of law.

Section 5.7. Integration. This Agreement and the documents referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein and in the Management Subscription Agreement, the Management Stock Option Plan, the Stock Option Agreements, and, if any, the employment agreement between a Management Investor and the Company or one of its subsidiaries. It is understood that each employee, consultant or non-employee director of the Company who is from time to time granted an option pursuant to the Management Stock Option Plan shall be deemed a Management Investor hereunder. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter other than such agreements and understandings set forth in the Management Subscription Agreement, the Management Stock Option Plan, the Stock Option Agreements and any such employment agreement.

Section 5.8. Descriptive Headings, Etc. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of terms contained herein. Unless the context of this Agreement otherwise requires, (i) words of any gender shall be deemed to include each other gender; (ii) words using the singular or plural number shall also include the plural or singular number, respectively; and (iii) references to “hereof,” “herein,” “hereby” and similar terms shall refer to this entire Agreement.

Section 5.9. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

Section 5.10. Successors, Assigns and Transferees. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, assigns and transferees except to the extent that the terms of this Agreement limit or otherwise restrict the transferability of any rights or obligations hereunder.

Section 5.11. Severability. In the event that any one or more of the provisions, paragraphs, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, paragraph, word, clause, phrase or sentence in every other respect and of the other remaining provisions, paragraphs, words, clauses, phrases or sentences hereof shall not be in any way impaired, it being intended that all rights, powers and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

Section 5.12. Termination. This Agreement shall terminate, and thereby become null and void, on the tenth anniversary of the date hereof.

Section 5.13. Injunctive Relief. It is hereby agreed and acknowledged that it will be impossible to measure in money the damages that would be suffered if the parties fail to comply with any of the obligations herein imposed on them and that in the event of any such failure, an aggrieved person will be irreparably damaged and will not have an adequate remedy at law. Any such person shall, therefore, be entitled to injunctive relief, including specific performance, to enforce such obligations, without the posting of any bond and if any action should be brought in equity to enforce any of the provisions of this Agreement, none of the parties hereto shall raise the defense that there is an adequate remedy at law.

Section 5.14. Amendment of Schedules. In the event that an individual who is an officer, employee, consultant or non-employee director of the Company or any of its subsidiaries shall at any time acquire any Shares or any Option, it shall be a condition to the issuance of any such Shares or the grant of any such Option that such individual duly execute and deliver a counterpart to this Agreement. Following such execution and delivery, Schedule I hereto shall be amended to reflect the addition of such individual as a Management Investor and such individual shall thereafter be deemed to be a Management Investor for all purposes of this Agreement.

Section 5.15. Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of a Management Investor for Federal income tax purposes with respect to any Management Shares, such Management Investor shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. The obligations of the Company hereunder shall be conditional on such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Management Investor.

Section 5.16. Consent to Jurisdiction. (a) Each party hereto hereby irrevocably consents and submits to the exclusive jurisdiction of any state or federal court whose situs is within New York City in any action or proceeding arising out of or relating to this Agreement, and each party hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in any federal court sitting in New York that possesses subject matter jurisdiction over the asserted claims or by any state court sitting in New York City.

(b) Each party further irrevocably agrees that venue for any action or proceeding arising out of or relating to this Agreement shall be proper in any state or federal court located in New York City, and each party irrevocably waives any right it may have to transfer or change the venue of any such action or proceeding brought against it in a state or federal court located in New York City. Each party agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(c) Nothing in this Section 5.16 shall affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any action or proceeding against any other party or its property in the courts of other jurisdictions.

Section 5.17. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 5.18. Legal Prohibitions. No Stockholder shall be required by any provision of this Agreement to take any action prohibited by applicable law, including ERISA. To the extent that the exercise of any right or the performance of any obligation by any Stockholder under this Agreement shall be prohibited by law, such Stockholder and the other parties hereto agree to cooperate in good faith in any reasonable and lawful alternative arrangements designed to provide such Stockholder or such other parties, as the case may be, the economic benefit from the exercise of such right or the performance of such obligation.

IN WITNESS WHEREOF, each of the undersigned has executed this Agreement or caused this Agreement to be executed on its behalf as of the date first above written.

LINCOLN TECHNICAL INSTITUTE, INC.

By: /s/ David F. Carney
Name: David F. Carney
Title: Chairman & CEO

BACK TO SCHOOL ACQUISITION, L.L.C.

By: /s/ James J. Burke, Jr.
Name: James J. Burke, Jr.
Title: President

Revised 7/01/03

Schedule 1
MANAGEMENT INVESTORS

Adele Stavish
Alan Lampert
Alexandra Luster
Barbara Kahnchak
Brian Sant'Angelo
David L. Evans
David F. Carney
Deborah Ramentol
Donna Corrieri
Donna Oliviera
Dorothy Gillard
Ed Abrams
Ed Stranix
Edna Higgins
Eric Jacobs
Helen Carver
Jeffrey Malkin
James Kuntz
James T. Morrissey
James Tolbert
Joseph Chalupa
Joseph Reichasrd
John Curtin
John Willie
Kristin Vega
Laurie Brown
Lawrence E. Brown
Lisa Kuntz
Louis Ammerata
Marie Acker
Mark Enea
Mark McGinnis
Michael Ackerman
Miryam Knutson
Nelson Comparetto
Nicholas Raspa
Nicole Ziccherri
Paul Bahr
Rachelle Haywood
Ronald Beall
Scott Shaw
Sean Quinn
Stephen Buchenot
Steven Lee
Tammy-Sue Jackson
Thomas McHugh
Thomas E. Lynch
Vivian Ballargeon
Vivian Wagner
William Alford
Bryan Gulebian
Keiko Shimado
Jerry Rubenstein
Roy Keith
James Moore
Peter Mosely
Karin Cogswell
George Hantzios
Rajat Shah
Jeremy Gibson
Walter Pruitt

Brian Meyers
Ami Bhandari
Charles Lyon
Steve Dill
Allan Short

Exhibit 10.1

CREDIT AGREEMENT

DATED AS OF FEBRUARY 15, 2005

AMONG

LINCOLN EDUCATIONAL SERVICES CORPORATION

THE GUARANTORS FROM TIME TO TIME PARTIES HERETO,

THE LENDERS FROM TIME TO TIME PARTIES HERETO,

AND

HARRIS TRUST AND SAVINGS BANK,
as Administrative Agent

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CREDIT AGREEMENT

This Credit Agreement is entered into as of February 15, 2005, by and among LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the *"Borrower"*), the direct and indirect Subsidiaries of the Borrower from time to time party to this Agreement, as Guarantors, the several financial institutions from time to time party to this Agreement, as Lenders, and HARRIS TRUST AND SAVINGS BANK (*"HTSB"*), as Administrative Agent as provided herein. All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in Section 5.1 hereof.

PRELIMINARY STATEMENT

The Borrower has requested, and the Lenders have agreed to extend, certain credit facilities on the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. THE CREDIT FACILITIES.

Section 1.1. Revolving Credit Commitments. Subject to the terms and conditions hereof, each Lender, by its acceptance hereof, severally agrees to make a loan or loans (individually a *"Revolving Loan"* and collectively the *"Revolving Loans"*) in U.S. Dollars to the Borrower from time to time on a revolving basis up to the amount of such Lender's Revolving Credit Commitment before the Revolving Credit Termination Date. The sum of the aggregate principal amount of Revolving Loans and L/C Obligations at any time outstanding shall not exceed the Revolving Credit Commitments in effect at such time. Each Borrowing of Revolving Loans shall be made ratably by the Lenders in proportion to their respective Revolver Percentages. As provided in Section 1.5(a) hereof, the Borrower may elect that each Borrowing of Revolving Loans be either Base Rate Loans or Eurodollar Loans. Revolving Loans may be repaid and prepaid and the principal amount thereof reborrowed before the Revolving Credit Termination Date, subject to the terms and conditions hereof.

Section 1.2. Letters of Credit. (a) *General Terms.* Subject to the terms and conditions hereof, as part of the Revolving Credit, the L/C Issuer shall issue standby letters of credit (each a *"Letter of Credit"*) for the Borrower's account in an aggregate undrawn face amount at any time outstanding not to exceed the L/C Sublimit, *provided* that the sum of the aggregate principal amount of Revolving Loans and L/C Obligations at any time outstanding shall not exceed the Revolving Credit Commitments in effect at such time. Each Letter of Credit shall be issued by the L/C Issuer, but each Lender shall be obligated to reimburse the L/C Issuer for such Lender's Revolver Percentage of the amount of each drawing thereunder and, accordingly, each Letter of Credit outstanding at any time shall constitute usage of the Revolving Credit Commitment of each Lender in an amount equal to its Revolver Percentage of the L/C Obligations with respect to such Letter of Credit then outstanding. Notwithstanding anything herein to the contrary, the

Existing Letters of Credit shall constitute *"Letters of Credit"* herein for all purposes of this Agreement to the same extent, and with the same force and effect, as if such Letters of Credit had been issued under this Agreement at the request of the Borrower (even though, among other things, the Existing Letters of Credit were originally issued at the request of one or more Subsidiaries of the Borrower, it being understood that, by its execution and delivery of this Agreement, the Borrower hereby agrees to become jointly and severally liable as a co-applicant on each of the Existing Letters of Credit to the same extent as if it had manually executed the application for each of the Existing Letters of Credit as a joint and several co-applicant therefor).

(b) *Applications.* At any time before the Revolving Credit Termination Date, the L/C Issuer shall, at the request of the Borrower, issue one or more Letters of Credit in U.S. Dollars, in a form reasonably satisfactory to the L/C Issuer, with expiration dates no later than the earlier of 12 months from the date of issuance (or which are cancelable not later than 12 months from the date of issuance and each renewal) or 30 days prior to the Revolving Credit Termination Date, upon the receipt of an application duly executed by the Borrower for the relevant Letter of Credit in the form then customarily prescribed by the L/C Issuer for the Letter of Credit requested (each an *"Application"*). Notwithstanding anything contained in any Application to the contrary: (i) the Borrower shall pay fees in connection with each Letter of Credit as set forth in Section 2.1 hereof or as may be modified pursuant to the terms of Section 1.9 hereof, and (ii) if the L/C Issuer is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, either with the proceeds of a Borrowing of Base Rate Loans pursuant to the last sentence of Section 1.5(c) hereof or otherwise, the amount of such drawing shall bear interest (which the Borrower hereby promises to pay) from and after the date such drawing is paid at a rate per annum equal to the sum of 2.0% plus the Applicable Margin plus the Base Rate from time to time in effect (computed on the basis of a year of 360 days and the actual number of days elapsed). If the L/C Issuer issues any Letter of Credit with an expiration date that is automatically extended unless the L/C Issuer gives notice within a period specified in such Letter of Credit that the expiration date will not so extend beyond its then scheduled expiration date, unless the Required Lenders instruct the L/C Issuer otherwise, the L/C Issuer will give such notice of non-renewal on any date during such specified period if on or before the last day of such specified period: (i) the expiration date of such Letter of Credit if so extended would be after the date 30 days prior to the Revolving Credit Termination Date, (ii) the Revolving Credit Commitments have been terminated, or (iii) a Default or an Event of Default exists and the Administrative Agent, at the request or with the consent of the Required Lenders, has given the L/C Issuer instructions not to so permit the extension of the expiration date of such Letter of Credit. The L/C Issuer agrees to issue amendments to the Letter(s) of Credit increasing the amount, or extending the expiration date, thereof at the request of the Borrower subject to the conditions of Section 7 hereof and the other terms of this Section 1.2.

(c) *The Reimbursement Obligations.* Subject to Section 1.2(b) hereof, the Borrower shall reimburse the L/C Issuer for all drawings under a Letter of Credit (a *"Reimbursement Obligation"*) by no later than 1:00 p.m. (Chicago time) on the date when each drawing is paid if the Borrower has been informed of such payment by the L/C Issuer on or before 11:30 a.m. (Chicago time) on the date when such drawing is paid or, if notice of such payment is given to the Borrower after 11:30 a.m. (Chicago time) on the date when such drawing is paid, by 10:00 a.m. (Chicago time) on the next Business Day, in immediately available funds at the

Administrative Agent's principal office in Chicago, Illinois or such other office as the Administrative Agent may designate in writing to the Borrower (who shall thereafter cause to be distributed to the L/C Issuer such amount(s) in like funds). If the Borrower does not make any such reimbursement payment on the date due and the Participating Lenders fund their participations therein in the manner set forth in Section 1.2(d) below, then all payments thereafter received by the Administrative Agent in discharge of any of the relevant Reimbursement Obligations shall be distributed in accordance with Section 1.2(d) below.

The Borrower's Reimbursement Obligations as provided in this Section 1.2(c) shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the relevant Application under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the L/C Issuer under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the L/C Issuer, nor any of their or their Affiliates' directors, officers, employees, agents or advisors, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the L/C Issuer; provided that the foregoing shall not be construed to excuse the L/C Issuer from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the L/C Issuer's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the L/C Issuer (as finally determined by a court of competent jurisdiction), the L/C Issuer shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the L/C Issuer may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit. In the event of any conflict between the terms of this Agreement and the terms of any Application, the terms of this Agreement shall govern.

(d) *The Participating Interests.* Each Lender (other than the Lender acting as L/C Issuer in issuing the relevant Letter of Credit), by its acceptance hereof, severally agrees to purchase from the L/C Issuer, and the L/C Issuer hereby agrees to sell to each such Lender (a *"Participating Lender"*), an undivided percentage participating interest (a *"Participating Interest"*), to the extent of its Revolver Percentage, in each Letter of Credit issued by, and each Reimbursement Obligation owed to, the L/C Issuer. Upon any failure by the Borrower to pay any Reimbursement Obligation at the time required on the date such Reimbursement Obligation is to be paid, as set forth in Section 1.2(c) above, or if the L/C Issuer is required at any time to return to the Borrower or to a trustee, receiver, liquidator, custodian or other Person any portion of any payment of any Reimbursement Obligation, each Participating Lender shall, not later than the Business Day it receives a certificate in the form of Exhibit A hereto from the L/C Issuer (with a copy to the Administrative Agent) to such effect, if such certificate is received before 1:00 p.m. (Chicago time), or not later than 1:00 p.m. (Chicago time) the following Business Day, if such certificate is received after such time, pay to the Administrative Agent for the account of the L/C Issuer an amount equal to such Participating Lender's Revolver Percentage of such unpaid or recaptured Reimbursement Obligation together with interest on such amount accrued from the date the related payment was made by the L/C Issuer to the date of such payment by such Participating Lender at a rate per annum equal to: (i) from the date the related payment was made by the L/C Issuer to the date 2 Business Days after payment by such Participating Lender is due hereunder, the Federal Funds Rate for each such day and (ii) from the date 2 Business Days after the date such payment is due from such Participating Lender to the date such payment is made by such Participating Lender, the Base Rate in effect for each such day. Each such Participating Lender shall thereafter be entitled to receive its Revolver Percentage of each payment received in respect of the relevant Reimbursement Obligation and of interest paid thereon, with the L/C Issuer retaining its Revolver Percentage thereof as a Lender hereunder.

The several obligations of the Participating Lenders to the L/C Issuer under this Section 1.2 shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever and shall not be subject to any set-off, counterclaim or defense to payment which any Participating Lender may have or have had against the Borrower, the L/C Issuer, the Administrative Agent, any Lender or any other Person whatsoever. Without limiting the generality of the foregoing, such obligations shall not be affected by any Default or Event of Default (other than an Event of Default of which the Administrative Agent is aware pursuant to the standard set forth in the seventh sentence of Section 11.3 hereof which exists at the time of the issuance of the Letter of Credit in question and which is not at such time or thereafter waived in accordance with Section 13.13 hereof or remedied to the satisfaction of the Required Lenders or such other group of Lenders as would be required to waive such Event of Default pursuant to Section 13.13 hereof) or by any reduction or termination of any Commitment of any Lender (other than, with respect to a Lender, a reduction or termination of such Lender's Commitment prior to the issuance of the Letter of Credit in question to the extent that such reduction or termination would cause such Lender's Percentage of the outstanding principal amount of Revolving Loans and L/C Obligations, after giving effect to the issuance of the Letter of Credit in question, to exceed its Commitment at such time, unless such Lender's Commitment is subsequently increased with such Lender's consent to eliminate such excess), and each payment by a Participating Lender under this Section 1.2 shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) *Indemnification.* The Participating Lenders shall, to the extent of their respective Revolver Percentages, indemnify the L/C Issuer (to the extent not reimbursed by the Borrower and without limiting the obligations of the Borrower to do so) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from the L/C Issuer's gross negligence or willful misconduct) that the L/C Issuer may suffer or incur in connection with any Letter of Credit issued by it. The obligations of the Participating Lenders under this Section 1.2(e) and all other parts of this Section 1.2 shall survive termination of this Agreement and of all Applications, Letters of Credit, and all drafts and other documents presented in connection with drawings thereunder.

(f) *Manner of Requesting a Letter of Credit.* The Borrower shall provide at least five (5) Business Days' advance written notice to the Administrative Agent of each request for the issuance of a Letter of Credit, such notice in each case to be accompanied by an Application for such Letter of Credit properly completed and executed by the Borrower and, in the case of an extension or an increase in the amount of a Letter of Credit, a written request therefor, in a form reasonably acceptable to the Administrative Agent and the L/C Issuer, in each case, together with the fees called for by this Agreement. The Administrative Agent shall promptly notify the L/C Issuer of the Administrative Agent's receipt of each such notice and the L/C Issuer shall promptly notify the Administrative Agent and the Lenders of the issuance of the Letter of Credit so requested.

Section 1.3. *Applicable Interest Rates* . (a) *Base Rate Loans.* Each Base Rate Loan made or maintained by a Lender shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and the actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued or created by conversion from a Eurodollar Loan until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Base Rate from time to time in effect, payable on the last day of its Interest Period and at maturity (whether by acceleration or otherwise).

"Base Rate" means for any day the greater of: (i) the rate of interest announced or otherwise established by HTSB from time to time as its prime commercial rate as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate (it being acknowledged and agreed that such rate may not be the Administrative Agent's best or lowest rate) and (ii) the sum of (x) the rate determined by the Administrative Agent to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Administrative Agent at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Administrative Agent for sale to HTSB at face value of Federal funds in the secondary market in an amount equal or comparable to the principal amount of the Base Rate Loan owed to HTSB for such day for which such rate is being determined, *plus* (y) 1/2 of 1%.

(b) *Eurodollar Loans.* Each Eurodollar Loan made or maintained by a Lender shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued or created by conversion from a Base Rate Loan until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Adjusted LIBOR applicable for such Interest Period, payable on the last day of the Interest Period and at maturity (whether by acceleration or otherwise), and, if the applicable Interest Period is longer than three months, on each day occurring every three months after the commencement of such Interest Period.

"Adjusted LIBOR" means, for any Borrowing of Eurodollar Loans, a rate per annum determined in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{1 - \text{Eurodollar Reserve Percentage}}$$

"Eurodollar Reserve Percentage" means, for any Borrowing of Eurodollar Loans, the daily average for the applicable Interest Period of the maximum rate, expressed as a decimal, at which reserves (including, without limitation, any supplemental, marginal, and emergency reserves) are imposed during such Interest Period by the Board of Governors of the Federal Reserve System (or any successor) on *"eurocurrency liabilities"*, as defined in such Board's Regulation D (or in respect of any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Loans is determined or any category of extensions of credit or other assets that include loans by non-United States offices of any Lender to United States residents), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto.

"LIBOR" means, for an Interest Period for a Borrowing of Eurodollar Loans, (a) the LIBOR Index Rate for such Interest Period, if such rate is available, and (b) if the LIBOR Index Rate cannot be determined, the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits in U.S. Dollars are offered to HTSB at 11:00 a.m. (London, England time) 2 Business Days before the beginning of such Interest Period by 3 or more major banks in the interbank eurodollar market selected by the Administrative Agent for delivery on the first day of and for a period equal to such Interest Period and in an amount equal or comparable to the principal amount of the Eurodollar Loan scheduled to be made by HTSB as part of such Borrowing.

"LIBOR Index Rate" means, for any Interest Period, the rate per annum for deposits in U.S. Dollars for a period equal to such Interest Period which appears on the Telerate Page 3750 as of 11:00 a.m. (London, England time) on the day 2 Business Days before the commencement of such Interest Period.

"Telerate Page 3750" means the display designated as *"Page 3750"* on the Telerate Service (or such other page as may replace Page 3750 on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for U.S. Dollar deposits).

(c) *Rate Determinations.* The Administrative Agent shall determine each interest rate applicable to the Loans and the Reimbursement Obligations hereunder, and its determination thereof shall be conclusive and binding except in the case of manifest error.

Section 1.4. Minimum Borrowing Amounts; Maximum Eurodollar Loans. Each Borrowing of Base Rate Loans shall be in an amount not less than $500,000 or such greater amount which is an integral multiple of $100,000. Each Borrowing of Eurodollar Loans advanced, continued or converted shall be in an amount equal to $1,000,000 or such greater amount which is an integral multiple of $500,000. Without the Administrative Agent's consent, there shall not be more than five Borrowings of Eurodollar Loans outstanding at any one time.

Section 1.5. Manner of Borrowing Loans and Designating Applicable Interest Rates. (a) *Notice to the Administrative Agent.* The Borrower shall give notice to the Administrative Agent by no later than 10:00 a.m. (Chicago time): (i) at least 3 Business Days before the date on which the Borrower requests the Lenders to advance a Borrowing of Eurodollar Loans and (ii) on the date the Borrower requests the Lenders to advance a Borrowing of Base Rate Loans. The Loans included in each Borrowing shall bear interest initially at the type of rate specified in such notice of a new Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Borrowing or, subject to Section 1.4's minimum amount requirement for each outstanding Borrowing, a portion thereof, as follows: (i) if such Borrowing is of Eurodollar Loans, on the last day of the Interest Period applicable thereto, the Borrower may continue part or all of such Borrowing as Eurodollar Loans or convert part or all of such Borrowing into Base Rate Loans or (ii) if such Borrowing is of Base Rate Loans, on any Business Day, the Borrower may convert all or part of such Borrowing into Eurodollar Loans for an Interest Period or Interest Periods specified by the Borrower. The Borrower shall give all such notices requesting the advance, continuation or conversion of a Borrowing to the Administrative Agent by telephone or telecopy (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing), substantially in the form attached hereto as Exhibit B (Notice of Borrowing) or Exhibit C (Notice of Continuation/Conversion), as applicable, or in such other form reasonably acceptable to the Administrative Agent. Notice of the continuation of a Borrowing of Eurodollar Loans for an additional Interest Period or of the conversion of part or all of a Borrowing of Base Rate Loans into Eurodollar Loans must be given by no later than 10:00 a.m. (Chicago time) at least 3 Business Days before the date of the requested continuation or conversion. All such notices concerning the advance, continuation or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued or converted, the type of Loans to comprise such new, continued or converted Borrowing and, if such Borrowing is to be comprised of Eurodollar Loans, the Interest Period applicable thereto. The Borrower agrees that the Administrative Agent may rely on any such telephonic or telecopy notice given by any person the Administrative Agent in good faith believes is an Authorized Representative without the necessity of independent investigation and, in the event any such notice by telephone conflicts with any written confirmation, such telephonic notice shall govern if the Administrative Agent has acted in reliance thereon.

(b) *Notice to the Lenders*. The Administrative Agent shall give prompt telephonic or telecopy notice to each Lender of any notice from the Borrower received pursuant to Section 1.5(a) above and, if such notice requests the Lenders to make Eurodollar Loans, the Administrative Agent shall give notice to the Borrower and each Lender by like means of the interest rate applicable thereto promptly after the Administrative Agent has made such determination.

(c) *Borrower's Failure to Notify; Automatic Continuations and Conversions*. Any outstanding Borrowing of Base Rate Loans shall automatically be continued for an additional Interest Period on the last day of its then current Interest Period unless the Borrower has notified the Administrative Agent within the period required by Section 1.5(a) that the Borrower intends to convert such Borrowing, subject to Section 7.1 hereof, into a Borrowing of Eurodollar Loans or such Borrowing is prepaid in accordance with Section 1.8(a). If the Borrower fails to give notice pursuant to Section 1.5(a) above of the continuation or conversion of any outstanding principal amount of a Borrowing of Eurodollar Loans before the last day of its then current Interest Period within the period required by Section 1.5(a) or, whether or not such notice has been given, one or more of the conditions set forth in Section 7.1 for the continuation or conversion of a Borrowing of Eurodollar Loans would not be satisfied, and such Borrowing is not prepaid in accordance with Section 1.8(a), such Borrowing shall automatically be converted into a Borrowing of Base Rate Loans. In the event the Borrower fails to give notice pursuant to Section 1.5(a) above of a Borrowing equal to the amount of a Reimbursement Obligation and has not notified the Administrative Agent by 1:00 p.m. (Chicago time) on the day such Reimbursement Obligation becomes due that it intends to repay such Reimbursement Obligation, the Borrower shall be deemed to have requested a Borrowing of Base Rate Loans under the Revolving Credit on such day in the amount of the Reimbursement Obligation then due, which Borrowing shall be applied to pay the Reimbursement Obligation then due.

(d) *Disbursement of Loans*. Not later than 1:00 p.m. (Chicago time) on the date of any requested advance of a new Borrowing, subject to Section 7 hereof, each Lender shall make available its Loan comprising part of such Borrowing in funds immediately available at the principal office of the Administrative Agent in Chicago, Illinois. The Administrative Agent shall make the proceeds of each new Borrowing available to the Borrower at the Administrative Agent's principal office in Chicago, Illinois.

(e) *Administrative Agent Reliance on Lender Funding.* Unless the Administrative Agent shall have been notified by a Lender prior to (or, in the case of a Borrowing of Base Rate Loans, by 1:00 p.m. (Chicago time) on) the date on which such Lender is scheduled to make payment to the Administrative Agent of the proceeds of a Loan (which notice shall be effective upon receipt) that such Lender does not intend to make such payment, the Administrative Agent may assume that such Lender has made such payment when due and the Administrative Agent may in reliance upon such assumption (but shall not be required to) make available to the Borrower the proceeds of the Loan to be made by such Lender and, if any Lender has not in fact made such payment to the Administrative Agent, such Lender shall, on demand, pay to the Administrative Agent the amount made available to the Borrower attributable to such Lender together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Borrower and ending on (but excluding) the date such

Lender pays such amount to the Administrative Agent at a rate per annum equal to: (i) from the date the related advance was made by the Administrative Agent to the date 2 Business Days after payment by such Lender is due hereunder, the Federal Funds Rate for each such day and (ii) from the date 2 Business Days after the date such payment is due from such Lender to the date such payment is made by such Lender, the Base Rate in effect for each such day. If such amount is not received from such Lender by the Administrative Agent immediately upon demand, the Borrower will, on demand, repay to the Administrative Agent the proceeds of the Loan attributable to such Lender with interest thereon from the date such amount was made available to the Borrower until (but excluding) the date the Borrower pays such amount to the Administrative Agent at a rate per annum equal to the interest rate applicable to the relevant Loan, but without such payment being considered a payment or prepayment of a Loan under Section 1.11 hereof so that the Borrower will have no liability under such Section with respect to such payment.

Section 1.6. *Interest Periods* . As provided in Section 1.5(a) hereof, at the time of each request to advance, continue or create by conversion a Borrowing of Eurodollar Loans, the Borrower shall select an Interest Period applicable to such Loans from among the available options. The term *"Interest Period"* means the period commencing on the date a Borrowing of Loans is advanced, continued or created by conversion and ending: (a) in the case of Base Rate Loans, on the earlier of (i) the last day of the calendar quarter (*i.e.,* the last day of March, June, September or December, as applicable) in which such Borrowing is advanced, continued or created by conversion (or on the last day of the following calendar quarter if such Loan is advanced, continued or created by conversion on the last day of a calendar quarter) and (ii) the date such Base Rate Loans are repaid or prepaid or are converted to Eurodollar Loans, and (b) in the case of a Eurodollar Loan, 1, 2, 3 or 6 months thereafter; *provided, however,* that:

(a) any Interest Period for a Borrowing of Revolving Loans consisting of Base Rate Loans that otherwise would end after the Revolving Credit Termination Date shall end on the Revolving Credit Termination Date;

(b) no Interest Period with respect to any portion of the Revolving Loans shall extend beyond the Revolving Credit Termination Date;

(c) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day, provided that, if such extension would cause the last day of an Interest Period for a Borrowing of Eurodollar Loans to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

(d) for purposes of determining an Interest Period for a Borrowing of Eurodollar Loans, a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; *provided, however,* that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

Section 1.7. *Maturity of Loans* . Each Loan, both for principal and interest, shall mature and become due and payable by the Borrower on the Revolving Credit Termination Date.

Section 1.8. *Prepayments.* (a) *Optional*. The Borrower shall have the privilege of prepaying without premium or penalty (except as set forth in Section 1.11 below) and in whole or in part (but, if in part, then: (i) if such Borrowing is of Base Rate Loans, in an amount equal to $500,000 or such greater amount which is an integral multiple of $100,000, (ii) if such Borrowing is of Eurodollar Loans, in an amount not less than $500,000, and (iii) in each case, in an amount such that the minimum amount required for a Borrowing pursuant to Section 1.4 hereof remains outstanding) any Borrowing of Loans at any time upon, in the case of a Borrowing of Eurodollar Loans, 3 Business Days prior notice by the Borrower to the Administrative Agent or, in the case of a Borrowing of Base Rate Loans, notice delivered by the Borrower to the Administrative Agent no later than 10:00 a.m. (Chicago time) on the date of prepayment, such prepayment to be made by the payment of the principal amount to be prepaid and, in the case of any Eurodollar Loans, accrued interest thereon to the date fixed for prepayment plus any amounts due the Lenders under Section 1.11 hereof.

(b) *Mandatory*. (i) If the Borrower or any Subsidiary shall at any time or from time to time after the Closing Date make a Disposition or suffer an Event of Loss resulting in Net Cash Proceeds in excess of $1,500,000 individually or on a cumulative basis for all such Dispositions and Events of Loss in any fiscal year of the Borrower (such excess amount the *"Excess Net Cash Proceeds"*), then (x) the Borrower shall promptly notify the Administrative Agent of such proposed Disposition or of such Event of Loss (including the amount of the estimated Net Cash Proceeds to be received by the Borrower or such Subsidiary in respect thereof) and (y) promptly upon receipt by the Borrower or the Subsidiary of the Net Cash Proceeds of such Disposition or Event of Loss, the Borrower shall prepay the Loans, and shall pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid (or prepay the Loans, and pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid, and prefund the L/C Obligations if required under Section 9.4 hereof), in an aggregate amount equal to 100% of such Excess Net Cash Proceeds; *provided* that in the case of each Disposition and Event of Loss, if the Borrower states in its notice of such event that the Borrower or the applicable Subsidiary intends to reinvest, within 90 days of the receipt by it of Net Cash Proceeds from such Disposition or Event of Loss, the Net Cash Proceeds thereof in assets similar to the assets which were subject to such Disposition or Event of Loss, then so long as no Default or Event of Default then exists, the Borrower shall not be required to make a mandatory prepayment under this Section in respect of such Excess Net Cash Proceeds to the extent such Excess Net Cash Proceeds are actually reinvested in such similar assets with such 90-day period. Promptly after the end of such 90-day period, the Borrower shall notify the Administrative Agent whether the Borrower or such Subsidiary has reinvested such Excess Net Cash Proceeds in such similar assets, and to the extent such Excess Net Cash Proceeds have not been so reinvested, the Borrower shall promptly prepay the Loans, and shall pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid (or prepay the Loans, and pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid, and prefund the L/C Obligations if required under Section 9.4 hereof), in the amount of such Excess Net Cash Proceeds not so reinvested. The amount of each such prepayment shall be applied on a ratable basis among the relevant outstanding Obligations of the several Lenders based on the principal amounts thereof. The Borrower may elect to defer any prepayment required under this Section 1.8(b)(i) until the end of the applicable Interest Period of one or more Borrowings of Eurodollar Loans so as to avoid incurring funding indemnity costs under Section 1.11 hereof, provided that cash in the amount of any prepayment so deferred shall be deposited by the Borrower in a non-interest bearing blocked cash collateral account with the Administrative Agent during the period of such deferral.

(ii) If after the Closing Date the Borrower or any Subsidiary shall issue new equity securities (whether common or preferred stock or otherwise), other than (x) shares of common stock of the Borrower issued in its initial public offering (including any shares issued pursuant to an over-allotment offering), (y) equity securities issued in connection with the exercise of employee stock options and (z) capital stock issued to the seller of an Acquired Business in connection with a Permitted Acquisition, the Borrower shall promptly notify the Administrative Agent of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Loans, and shall pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid (or prepay the Loans, and pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid, and prefund the L/C Obligations if required under Section 9.4 hereof), in an aggregate amount equal to 100% of such Net Cash Proceeds. The amount of each such prepayment shall be applied on a ratable basis among the relevant outstanding Obligations of the several Lenders based on the principal amounts thereof. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Lenders for any breach of Section 8.11 hereof or any other terms of this Agreement. The Borrower may elect to defer any prepayment required under this Section 1.8(b)(ii) until the end of the applicable Interest Period of one or more Borrowings of Eurodollar Loans so as to avoid incurring funding indemnity costs under Section 1.11 hereof, provided that cash in the amount of any prepayment so deferred shall be deposited by the Borrower in a non-interest bearing blocked cash collateral account with the Administrative Agent during the period of such deferral.

(iii) If after the Closing Date the Borrower or any Subsidiary shall issue any Indebtedness for Borrowed Money, other than Indebtedness for Borrowed Money permitted by Section 8.7(a)-(h) hereof, the Borrower shall promptly notify the Administrative Agent of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Loans, and shall pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid (or prepay the Loans, and pay accrued interest to the date of such prepayment on the aggregate principal amount being prepaid, and prefund the L/C Obligations if required under Section 9.4 hereof), in an aggregate amount equal to 100% of such Net Cash Proceeds. The amount of each such prepayment shall be applied on a ratable basis among the relevant outstanding Obligations of the several Lenders based on the principal amounts thereof. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Lenders for any breach of Section 8.7 hereof or any other terms of this Agreement. The Borrower may elect to defer any prepayment required under this Section 1.8(b)(iii) until the end of the applicable Interest Period of one or more Borrowings of Eurodollar Loans so as to avoid incurring funding indemnity costs under Section 1.11 hereof, provided that cash in the amount of any prepayment so deferred shall be deposited by the Borrower in a non-interest bearing blocked cash collateral account with the Administrative Agent during the period of such deferral.

(iv) The Borrower shall, on each date the Revolving Credit Commitments are reduced pursuant to Section 1.12 hereof, prepay the Revolving Loans and, if necessary, prefund the L/C Obligations by the amount, if any, necessary to reduce the sum of the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding to the amount to which the Revolving Credit Commitments (such term being understood to refer to the aggregate amount of such Commitments in effect at such time, whether used or unused) have been so reduced.

(v) Unless the Borrower otherwise directs, prepayments of Loans under this Section 1.8(b) shall be applied first to Borrowings of Base Rate Loans until payment in full thereof with any balance applied to Borrowings of Eurodollar Loans in the order in which their Interest Periods expire. Each prepayment of Loans under this Section 1.8(b) shall be made by the payment of the principal amount to be prepaid and, in the case of any Eurodollar Loans, accrued interest thereon to the date of prepayment together with any amounts due the Lenders under Section 1.11 hereof. Each prefunding of L/C Obligations shall be made in accordance with Section 9.4 hereof.

(c) The Administrative Agent will promptly advise each Lender of any notice of prepayment it receives from the Borrower. Any amount of Revolving Loans paid or prepaid before the Revolving Credit Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid, prepaid and borrowed again.

Section 1.9. *Default Rate*. Notwithstanding anything to the contrary contained in Section 1.3 hereof, while any Event of Default exists or after acceleration of the Loans pursuant to Section 9.2 or 9.3, the Borrower shall pay interest (after as well as before entry of judgment to the extent permitted by law) on the principal amount of all Loans owing by it and shall pay letter of credit fees at a rate per annum equal to:

(a) for any Base Rate Loan, the sum of 2.0% plus the Applicable Margin plus the Base Rate from time to time in effect;

(b) for any Eurodollar Loan, the sum of 2.0% plus the rate of interest in effect thereon at the time such Event of Default shall occur until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of 2.0% plus the Applicable Margin for Base Rate Loans plus the Base Rate from time to time in effect; and

(c) for any letter of credit fees payable pursuant to the second sentence of Section 2.1(b) hereof, the sum of 2.0% *plus* the Applicable Margin from time to time in effect;

provided, however, that in the absence of acceleration, any adjustments pursuant to this Section shall be made at the election of the Administrative Agent, acting at the request or with the consent of the Required Lenders, with written notice to the Borrower. While any Event of Default exists or after acceleration, interest and letter of credit fees shall be paid on demand of the Administrative Agent at the request or with the consent of the Required Lenders.

Section 1.10. *The Notes* . (a) The Revolving Loans made to the Borrower by a Lender shall be evidenced by a single promissory note of the Borrower issued to such Lender in the form of Exhibit D hereto. Each such promissory note is hereinafter referred to as a *"Revolving Note"* and collectively such promissory notes are referred to as the *"Revolving Notes."*

(b) Each Lender shall record on its books and records or on a schedule to its appropriate Note the amount of each Loan advanced, continued or converted by it, all payments of principal and interest and the principal balance from time to time outstanding thereon, the type of such Loan, and, for any Eurodollar Loan, the Interest Period and the interest rate applicable thereto. The record thereof made in good faith by a Lender, whether shown on such books and records of a Lender or on a schedule to the relevant Note, shall be *prima facie* evidence as to all such matters; *provided, however*, that the failure of any Lender to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrower to repay all Loans made to it hereunder together with accrued interest thereon as required under this Agreement. At the request of any Lender and upon such Lender tendering to the Borrower the appropriate Note to be replaced, the Borrower shall furnish a new Note to such Lender to replace any outstanding Note, and at such time the first notation appearing on a schedule on the reverse side of, or attached to, such Note shall set forth the aggregate unpaid principal amount of all Loans, if any, then outstanding thereon.

Section 1.11. *Funding Indemnity* . If any Lender shall incur any loss, cost or expense (excluding any loss of anticipated profit, but otherwise including without limitation any other loss, cost or expense reasonably incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Lender to fund or maintain any Eurodollar Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to such Lender) as a result of:

(a) any payment, prepayment or conversion of a Eurodollar Loan on a date other than the last day of its Interest Period,

(b) any failure (because of a failure to meet the conditions of Section 7 or otherwise) by the Borrower to borrow or continue a Eurodollar Loan, or to convert a Base Rate Loan into a Eurodollar Loan on the date specified in a notice given pursuant to Section 1.5(a) hereof,

(c) any failure by the Borrower to make any payment of principal on any Eurodollar Loan when due (whether by acceleration or otherwise), or

(d) any acceleration of the maturity of a Eurodollar Loan as a result of the occurrence of any Event of Default hereunder, then, upon the demand of such Lender and the receipt by the Borrower of the certificate of such Lender referred to in the next succeeding sentence, the Borrower shall pay to such Lender such amount as will reimburse such Lender for such loss, cost or expense. If any Lender makes such a claim for compensation, it shall provide to the Borrower, with a copy to the Administrative Agent, a certificate setting forth the amount of such loss, cost or expense in reasonable detail (including an explanation of the basis for and the computation of such loss, cost or expense) and the amounts shown on such certificate shall be conclusive absent manifest error.

Section 1.12. *Commitment Terminations.* (a) *Optional Revolving Credit Terminations.* The Borrower shall have the right at any time and from time to time, upon 5 Business Days prior written notice to the Administrative Agent, to terminate the Revolving Credit Commitments without premium or penalty and in whole or in part, any partial termination to be (i) in an amount not less than $1,000,000 and (ii) allocated ratably among the Lenders in proportion to their respective Revolver Percentages, provided that the Revolving Credit Commitments (such term being understood to refer to the aggregate amount of such Commitments in effect at such time, whether used or unused) may not be reduced to an amount less than the sum of the aggregate principal amount of Revolving Loans and of L/C Obligations then outstanding. Any termination of the Revolving Credit Commitments below the L/C Sublimit then in effect shall reduce the L/C Sublimit by a like amount. The Administrative Agent shall give prompt notice to each Lender of any such termination of the Revolving Credit Commitments.

(b) Any termination of the Commitments pursuant to this Section 1.12 may not be reinstated.

Section 1.13. *Substitution of Lenders*. Upon the receipt by the Borrower of (a) a claim from any Lender for compensation under Section 10.3 or 13.1 hereof, (b) notice by any Lender to the Borrower of any illegality pursuant to Section 10.1 hereof or (c) in the event any Lender is in default in any material respect with respect to its obligations under the Loan Documents (any such Lender referred to in clause (a), (b) or (c) above being hereinafter referred to as an *"Affected Lender"*), the Borrower may, in addition to any other rights the Borrower may have hereunder or under applicable law, require, at its expense, any such Affected Lender to assign, at par plus accrued interest and fees, without recourse, all of its interest, rights, and obligations hereunder (including all of its Commitments and the Loans and participation interests in Letters of Credit and other amounts at any time owing to it hereunder and the other Loan Documents) to a bank or other institutional lender specified by the Borrower, provided that (i) such assignment shall not conflict with or violate any law, rule or regulation or order of any court or other governmental authority, (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender, the Borrower shall have received the written consent of the Administrative Agent, which consent shall not be unreasonably withheld, to the identity of the assignee of such assignment, (iii) the Affected Lender shall receive one or more payments from either the Borrower or one or more assignees of all monies (together with amounts due such Affected Lender under Section 1.11 hereof as if the Loans owing to it were prepaid rather than assigned) owing to it hereunder for a purchase of its Obligations at par, and (iv) the assignment is entered into in accordance with the other requirements of Section 13.12 hereof.

SECTION 2. FEES.

Section 2.1. *Fees*. (a) *Revolving Credit Commitment Fee*. The Borrower shall pay to the Administrative Agent for the ratable account of the Lenders in accordance with their Revolver Percentages a commitment fee at the rate per annum equal to the Applicable Margin (computed on the basis of a year of 360 days and the actual number of days elapsed) on the average daily Unused Revolving Credit Commitments. Such commitment fee shall be payable quarter-annually in arrears on the last day of each March, June, September, and December in each year (commencing on the first such date occurring after the date hereof) and on the Revolving Credit Termination Date, unless the Revolving Credit Commitments are terminated in whole on an earlier date, in which event the commitment fee for the period to the date of such termination in whole shall be paid on the date of such termination.

(b) *Letter of Credit Fees.* On the date of issuance or extension, or increase in the amount, of any Letter of Credit pursuant to Section 1.2 hereof, the Borrower shall pay to the L/C Issuer for its own account an issuance fee equal to 0.125% of the face amount of (or of the increase in the face amount of) such Letter of Credit. Quarterly in arrears, on the last day of each March, June, September, and December, commencing on the first such date occurring after the date hereof, the Borrower shall pay to the Administrative Agent, for the ratable benefit of the Lenders in accordance with their Revolver Percentages, a letter of credit fee at a rate per annum equal to the Applicable Margin (computed on the basis of a year of 360 days and the actual number of days elapsed) applied to the daily average maximum amount available to be drawn under all Letters of Credit outstanding during such quarter (assuming compliance with all conditions to drawing thereunder). In addition, the Borrower shall pay to the L/C Issuer for its own account the L/C Issuer's standard drawing, negotiation, amendment, and other administrative fees for each Letter of Credit. Such standard fees referred to in the preceding sentence may be established by the L/C Issuer from time to time.

(c) *Administrative Agent Fees*. The Borrower shall pay to the Administrative Agent, for its own use and benefit, the other fees agreed to between the Administrative Agent and the Borrower in a letter dated October 22, 2004 or as otherwise agreed to in writing between them.

(d) *Audit Fees.* The Borrower shall pay to the Administrative Agent for its own use and benefit reasonable charges for audits of the Collateral performed by the Administrative Agent or its agents or representatives in such amounts as the Administrative Agent may from time to time request (the Administrative Agent acknowledging and agreeing that such charges shall be computed in the same manner as it at the time customarily uses for the assessment of charges for similar collateral audits); *provided, however,* that in the absence of any Default or Event of Default, the Borrower shall not be required to pay the Administrative Agent for more than one such audit per calendar year.

SECTION 3. PLACE AND APPLICATION OF PAYMENTS.

Section 3.1. *Place and Application of Payments*. All payments of principal of and interest on the Loans and the Reimbursement Obligations, and of all other Obligations payable by the Borrower under this Agreement and the other Loan Documents, shall be made by the

Borrower to the Administrative Agent by no later than 12:00 Noon (Chicago time) on the due date thereof at the office of the Administrative Agent in Chicago, Illinois (or such other location as the Administrative Agent may designate in writing to the Borrower) for the benefit of the Lender or Lenders entitled thereto. Any payments received after such time shall be deemed to have been received by the Administrative Agent on the next Business Day. All such payments shall be made in U.S. Dollars, in immediately available funds at the place of payment, in each case without set-off or counterclaim. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest on Loans and on Reimbursement Obligations in which the Lenders have purchased Participating Interests ratably to the Lenders and like funds relating to the payment of any other amount payable to any Lender to such Lender, in each case to be applied in accordance with the terms of this Agreement.

Anything contained herein to the contrary notwithstanding, all payments and collections received in respect of the Obligations and all proceeds of the Collateral received, in each instance, by the Administrative Agent or any of the Lenders after the Obligations have been declared, or have become, due and payable, shall be remitted to the Administrative Agent and distributed as follows:

(a) first, to the payment of any outstanding costs and expenses incurred by the Administrative Agent, and any security trustee therefor, in monitoring, verifying, protecting, preserving or enforcing the Liens on the Collateral, in protecting, preserving or enforcing rights under the Loan Documents, and in any event all costs and expenses of a character which the Borrower has agreed to pay the Administrative Agent under Section 13.15 hereof (such funds to be retained by the Administrative Agent for its own account unless it has previously been reimbursed for such costs and expenses by the Lenders, in which event such amounts shall be remitted to the Lenders to reimburse them for payments theretofore made to the Administrative Agent);

(b) second, to the payment of any outstanding interest and fees due under the Loan Documents to be allocated pro rata in accordance with the aggregate unpaid amounts owing to each holder thereof;

(c) third, to the payment of principal on the Notes, unpaid Reimbursement Obligations, together with amounts to be held by the Administrative Agent as collateral security for any outstanding L/C Obligations pursuant to Section 9.4 hereof (until the Administrative Agent is holding an amount of cash equal to the then outstanding amount of all such L/C Obligations), and Hedging Liability, the aggregate amount paid to, or held as collateral security for, the Lenders and, in the case of Hedging Liability, their Affiliates to be allocated pro rata in accordance with the aggregate unpaid amounts owing to each holder thereof;

(d) fourth, to the payment of all other unpaid Obligations and all other indebtedness, obligations, and liabilities of the Borrower and the Subsidiaries secured by the Collateral Documents (including, without limitation, Funds Transfer and Deposit Account Liability) to be allocated pro rata in accordance with the aggregate unpaid amounts owing to each holder thereof; and

(e) fifth, to the Borrower or whoever else may be lawfully entitled thereto.

SECTION 4. THE COLLATERAL AND GUARANTIES.

Section 4.1. Collateral. The Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability shall be secured by (a) valid, perfected and enforceable Liens on all right, title, and interest of the Borrower and each Subsidiary in all capital stock and other equity interests held by such Person in each of its Subsidiaries, whether now owned or hereafter formed or acquired, and all proceeds thereof, and (b) valid, perfected, and enforceable Liens on all right, title, and interest of the Borrower and each Subsidiary in all personal property, fixtures, and real estate, whether now owned or hereafter acquired or arising, and all proceeds thereof; *provided, however,* that: (i) unless and until an Event of Default has occurred and is continuing and thereafter unless and until otherwise required by the Administrative Agent or the Required Lenders, Liens on deposit accounts maintained by the Borrower and the Subsidiaries need not be perfected provided that the total amount on deposit at any one time not so perfected shall not exceed $250,000 in the aggregate, (ii) unless and until an Event of Default has occurred and is continuing and thereafter unless and until otherwise required by the Administrative Agent or the required Lenders, Liens on payroll accounts maintained by the Borrower and the Subsidiaries need not be perfected provided the total amount on deposit at any time not so perfected does not exceed the current amount of their payroll obligations, (iii) unless and until an Event of Default has occurred and is continuing and thereafter, unless and until otherwise required by the Administrative Agent or the Required Lenders, Liens on vehicles which are subject to a certificate of title law need not be perfected provided that the total value of such property at any one time not so perfected shall not exceed $250,000 in the aggregate, (iv) unless and until otherwise required by the Administrative Agent or the Required Lenders during the existence of any Event of Default, Liens on the capital stock or other equity interests of a Foreign Subsidiary shall be limited to 66% of the total outstanding Voting Stock of any such Foreign Subsidiary owned by a Domestic Subsidiary and shall not be granted in respect of the stock of any Foreign Subsidiary owned by another Foreign Subsidiary, and (v) unless and until otherwise required by the Administrative Agent or the Required Lenders during the existence of any Event of Default, Liens shall not be granted on the assets of a Foreign Subsidiary. The Borrower acknowledges and agrees that the Liens on the Collateral shall be granted to the Administrative Agent for the benefit of the holder of the Obligations, the Hedging Liability, and the Funds Transfer and Deposit Account Liability and shall be valid and perfected first priority Liens subject only to Liens permitted by Section 8.8 hereof, in each case pursuant to one or more Collateral Documents from such Persons, each in form and substance satisfactory to the Administrative Agent.

Section 4.2. Liens on Real Property. In the event the Borrower or any Subsidiary owns or hereafter acquires any real property, the Borrower shall, or shall cause such Subsidiary to, execute and deliver to the Administrative Agent (or a security trustee therefor) a mortgage or deed of trust reasonably acceptable in form and substance to the Administrative Agent for the purpose of granting to the Administrative Agent a Lien on such real property to secure the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability, shall pay all taxes, costs, and expenses reasonably incurred by the Administrative Agent in recording such mortgage or deed of trust, and shall (except to the extent waived by the Administrative Agent) supply to the Administrative Agent at the Borrower's cost and expense a survey, environmental report, hazard insurance policy, appraisal report, and a mortgagee's policy of title insurance from a title insurer acceptable to the Administrative Agent insuring the validity of such mortgage or deed of trust and its status as a first Lien (subject to Liens permitted by this Agreement) on the real property encumbered thereby and such other instrument, documents, certificates, and opinions reasonably required by the Administrative Agent in connection therewith.

Section 4.3. *Guaranties*. The payment and performance of the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability shall at all times be guaranteed each direct and indirect Subsidiary of Borrower pursuant to Section 12 hereof or pursuant to one or more guaranty agreements in form and substance acceptable to the Administrative Agent, as the same may be amended, modified or supplemented from time to time (individually a *"Guaranty"* and collectively the *"Guaranties"*); *provided, however,* that unless otherwise required by the Administrative Agent or the Required Lenders during the existence of any Event of Default, a Foreign Subsidiary shall not be required to be a guarantor hereunder.

Section 4.4. *Further Assurances*. The Borrower agrees that it shall, and shall cause each Subsidiary to, from time to time at the request of the Administrative Agent or the Required Lenders, execute and deliver such documents and do such acts and things as the Administrative Agent or the Required Lenders may reasonably request in order to provide for or perfect or protect such Liens on the Collateral, including without limitation using commercially reasonable efforts to cause landlords of its leased property to deliver landlord waivers and, if applicable, consents to leasehold mortgages, in favor of the Administrative Agent. In the event the Borrower or any Subsidiary forms or acquires any other Subsidiary after the date hereof, the Borrower or such Subsidiary (as the case may be) shall promptly upon such formation or acquisition cause such newly formed or acquired Subsidiary to execute a Guaranty and such Collateral Documents as the Administrative Agent may then require, and the Borrower or such Subsidiary (as the case may be) shall also deliver to the Administrative Agent, or cause such Subsidiary to deliver to the Administrative Agent, at the Borrower's cost and expense, such other instruments, documents, certificates, and opinions reasonably required by the Administrative Agent in connection therewith.

Section 4.5. *Collections.* The Borrower shall promptly, but in any event within 30 days after the Closing Date, make arrangements (including the opening of a central collections account with HTSB) whereby all cash proceeds of the Collateral of the Borrower and each Subsidiary are required to be deposited into one or more accounts maintained by the Borrower or any of its Subsidiaries with HTSB or with other financial institutions selected by the Borrower and acceptable to the Administrative Agent (which financial institutions have entered into reasonably acceptable account control agreements with the Administrative Agent relating to such accounts), pursuant to arrangements under which the balance of collected funds standing on deposit in such accounts maintained with such other financial institutions are transmitted to one or more collections accounts at HTSB, except to the extent agreed by the Borrower and the Administrative Agent with respect to certain payroll and demand deposit accounts of the Borrower and its Subsidiaries.

SECTION 5. DEFINITIONS; INTERPRETATION.

Section 5.1. *Definitions*. The following terms when used herein shall have the following meanings:

"Acceptable Accounting Firm" is defined within the definition of *"Permitted Acquisition"* in this Section 5.1.

"Accrediting Body" means any entity or organization which engages in granting or withholding Accreditation or similar approval for private post-secondary schools and educational programs, in accordance with standards relating to the performance, operation, financial condition and/or educational quality of such schools and programs, including, without limitation, the Accrediting Commission for Career Schools and Colleges of Technology.

"Accreditation" means the status of public recognition granted by any Accrediting Body to an educational institution that meets the Accrediting Body's standards and requirements.

"Acquired Business" means the entity or assets acquired by the Borrower or a Subsidiary in an Acquisition, whether before or after the date hereof.

"Acquired EBITDA" means, with reference to any Acquired Business for any period, Acquired Net Income for such period *plus* (i) the sum of all amounts deducted in arriving at such Acquired Net Income amount in respect of (a) Acquired Interest Expense for such period, (b) federal, state, and local income taxes of the Acquired Business for such period, and (c) depreciation of fixed assets and amortization of intangible assets of the Acquired Business for such period, subject to adjustments approved by the Administrative Agent.

"Acquired EBITDAR" means, with reference to any Acquired Business for any period, Acquired EBITDA for such period *plus* Rental Expenses of the Acquired Business for such period, subject to adjustments approved by the Administrative Agent.

"Acquired Interest Expense" means, with reference to any Acquired Business for any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of the Acquired Business for such period determined on a consolidated basis in accordance with GAAP.

"Acquired Net Income" means, with reference to any Acquired Business for any period, the net income (or net loss) of the Acquired Business for such period computed on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded from Acquired Net Income the net income (or net loss) of any Person (other than a subsidiary of such Acquired Business) in which the Acquired Business has a equity interest, except to the extent of the amount of dividends or other distributions actually paid to the Acquired Business during such period.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a

Person, or of any business or division of a Person, (b) the acquisition of an amount in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person (other than a Person that is, immediately prior to such transaction or series of related transactions, a Subsidiary), or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower or the Subsidiary is the surviving entity.

"Adjusted EBITDA" means, with reference to any period, EBITDA for such period plus the Acquired EBITDA of the Persons or assets which are the subject of any Permitted Acquisition during such period, adjusted for the reasonably expected savings in operating expenses resulting from such Permitted Acquisition as if such Permitted Acquisition was consummated on the first day of such period, all such calculations and adjustments to be approved by the Required Lenders in their reasonable discretion.

"Adjusted EBITDAR" means, with reference to any period, EBITDAR for such period plus the Acquired EBITDAR of the Persons or assets which are the subject of any Permitted Acquisition during such period, adjusted for the reasonably expected savings in operating expenses resulting from such Permitted Acquisition as if such Permitted Acquisition was consummated on the first day of such period, all such calculations and adjustments to be approved by the Required Lenders in their reasonable discretion.

"Adjusted LIBOR" is defined in Section 1.3(b) hereof.

"Administrative Agent" means Harris Trust and Savings Bank, in its capacity as administrative agent hereunder, and any successor pursuant to Section 11.7 hereof.

"Affiliate" means any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person for the purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; *provided that*, in any event for purposes of this definition, any Person that owns, directly or indirectly, 10% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 10% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Agreement" means this Credit Agreement, as the same may be amended, modified, restated or supplemented from time to time pursuant to the terms hereof.

"Applicable Margin" means, with respect to Loans, Reimbursement Obligations, and the commitment fees and letter of credit fees payable under Section 2.1 hereof, until the first Pricing Date, the rates per annum shown opposite Level II below, and thereafter from one Pricing Date to the next, the Applicable Margin means the rates per annum determined in accordance with the following schedule:

LEVEL	TOTAL FUNDED DEBT/ADJUSTED EBITDA RATIO FOR SUCH PRICING DATE	APPLICABLE MARGIN FOR BASE RATE LOANS UNDER REVOLVING CREDIT AND REIMBURSEMENT OBLIGATIONS SHALL BE:	APPLICABLE MARGIN FOR EURODOLLAR LOANS UNDER REVOLVING CREDIT AND LETTER OF CREDIT FEE SHALL BE:	APPLICABLE MARGIN FOR COMMITMENT FEE SHALL BE:
IV	Greater than or equal to 2.0 to 1.0	0.25%	1.75%	0.40%
III	Less than 2.0 to 1.0, but greater than or equal to 1.50 to 1.0	0.0%	1.50%	0.35%
II	Less than 1.50 to 1.0, but greater than or equal to 1.0 to 1.0	0.0%	1.25%	0.30%
I	Less than 1.0 to 1.0	0.0%	1.00%	0.25%

For purposes hereof, the term *"Pricing Date"* means, for any fiscal quarter of the Borrower ending on or after December 31, 2004, the date on which the Borrower has delivered to the Administrative Agent the Borrower's most recent financial statements and compliance certificate (and, in the case of the year-end financial statements, audit report) for the fiscal quarter then ended, pursuant to Section 8.5 hereof. The Applicable Margin shall be established based on the Total Funded Debt/Adjusted EBITDA Ratio for the most recently completed fiscal quarter and the Applicable Margin established on a Pricing Date shall remain in effect until the next Pricing Date. If the Borrower has not delivered its financial statements and compliance certificate by the date such financial statements and compliance certificate (and, in the case of the year-end financial statements, audit report) are required to be delivered under Section 8.5 hereof, from such date until such financial statements, compliance certificate and audit report are delivered, the Applicable Margin shall be the highest Applicable Margin (*i.e.,* Level IV shall apply). If the Borrower subsequently delivers such financial statements and compliance certificate before the next Pricing Date, the Applicable Margin established by such late delivered financial statements and compliance certificate shall take effect from the date of such delivery until the next Pricing Date. In all other circumstances, the Applicable Margin established with respect to such financial statements and compliance certificate shall be in effect from the Pricing Date that occurs immediately after the end of the fiscal quarter covered by such financial statements and Compliance Certificate until the next Pricing Date. Each determination of the Applicable Margin made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and the Lenders if reasonably determined.

"Application" is defined in Section 1.2(b) hereof.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Authorized Representative" means those persons shown on the list of officers provided by the Borrower pursuant to Section 7.2 hereof or on any update of any such list provided by the Borrower to the Administrative Agent, or any further or different officers of the Borrower so named by any Authorized Representative of the Borrower in a written notice to the Administrative Agent.

"Base Rate" is defined in Section 1.3(a) hereof.

"Base Rate Loan" means a Loan bearing interest at a rate specified in Section 1.3(a) hereof.

"Borrower" is defined in the introductory paragraph of this Agreement.

"Borrowing" means the total of Loans of a single type advanced, continued for an additional Interest Period, or converted from a different type into such type on a single date and, in the case of Eurodollar Loans, for a single Interest Period. Borrowings of Loans are made and maintained ratably from each of the Lenders under a Credit according to their Percentages of such Credit. A Borrowing is *"advanced"* on the day Lenders advance funds comprising such Borrowing to the Borrower, is *"continued"* on the date a new Interest Period for the same type of Loans commences for such Borrowing, and is *"converted"* when such Borrowing is changed from one type of Loans to the other, all as requested by the Borrower pursuant to Section 1.5(a) hereof.

"Business Day" means any day (other than a Saturday or Sunday) on which banks are not authorized or required to close in Chicago, Illinois and, if the applicable Business Day relates to the advance or continuation of, or conversion into, or payment of a Eurodollar Loan, on which banks are dealing in U.S. Dollar deposits in the interbank eurodollar market in London, England and Nassau, Bahamas.

"Capital Expenditures" means, with respect to any Person for any period, the aggregate amount of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period for the acquisition or leasing (pursuant to a Capital Lease) of fixed or capital assets or additions to property, plant, or equipment (including replacements, capitalized repairs, and improvements) which should be capitalized on the balance sheet of such Person in accordance with GAAP.

"Capital Lease" means any lease of Property which in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

"Capitalized Lease Obligation" means, for any Person, the amount of the liability shown on the balance sheet of such Person in respect of a Capital Lease determined in accordance with GAAP.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 *et seq.,* and any future amendments.

"Change of Control" means any of (a) at any time prior to the Borrower's initial public offering of common stock, Stonington shall cease to own, directly or indirectly, at least 51% of the outstanding Voting Stock of the Borrower on a fully-diluted basis, (b) at any time after the Borrower's initial public offering of common stock, any Person or two or more Persons acting in concert, other than Stonington and Five Mile River, shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of the Voting Stock (or other securities convertible into such Voting Stock) representing 20% or more of the combined voting power of all Voting Stock of the Borrower, (c) the failure of individuals who are members of the board of directors (or similar governing body) of the Borrower on the Closing Date (together with any new or replacement directors whose initial nomination for election was approved by a majority of the directors who were either directors on the Closing Date or previously so approved) to constitute a majority of the board of directors (or similar governing body) of the Borrower, or (d) any "Change of Control" or "Control Event" (or words of like import), as defined in any agreement or indenture relating to any issue of Indebtedness for Borrowed Money of the Borrower or any of the Subsidiaries outstanding at such time in a principal amount aggregating in excess of $1,000,000 shall occur, which "Change of Control" or "Control Event" (or words of like import) would permit the acceleration of the maturity of such Indebtedness for Borrowed Money or require the issuer or borrower of such Indebtedness for Borrowed Money to offer to one or more of the holders thereof to prepay in full such Indebtedness for Borrowed Money.

"Closing Date" means the date of this Agreement or such later Business Day upon which each condition described in Section 7.2 shall be satisfied or waived in a manner acceptable to the Administrative Agent in its discretion.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

"Cohort Default Rate" shall have the meaning as provided in 34 C.F.R. Section 668 Subpart M.

"Collateral" means all properties, rights, interests, and privileges from time to time subject to the Liens granted to the Administrative Agent, or any security trustee therefor, by the Collateral Documents.

"Collateral Account" is defined in Section 9.4 hereof.

"Collateral Documents" means the Mortgages, the Pledge Agreement, the Security Agreement, and all other mortgages, deeds of trust, security agreements, pledge agreements, assignments, financing statements and other documents as shall from time to time secure the Obligations, the Hedging Liability, and the Funds Transfer and Deposit Account Liability or any part thereof.

"Commitments" means the Revolving Credit Commitments.

"Consolidated Total Assets" means, as of any time, the total assets of the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

"Credit" means the Revolving Credit.

"Credit Event" means the advancing of any Loan, or the issuance of, or extension of the expiration date or increase in the amount of, any Letter of Credit.

"Damages" means all damages including, without limitation, punitive damages, liabilities, costs, expenses, losses, diminutions in value, fines, penalties, demands, claims, cost recovery actions, lawsuits, administrative proceedings, orders, response action, removal and remedial costs, compliance costs, investigation expenses, consultant fees, attorneys' and paralegals' fees and litigation expenses.

"Default" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"Disposition" means, with respect to any Person, the sale, lease, conveyance or other disposition of Property of such Person, other than sales or other dispositions expressly permitted under Section 8.10(a), (b), (d) or (e) hereof.

"DOE" shall mean the United States Department of Education and any successor agency administering Title IV Programs.

"Domestic Subsidiary" means each Subsidiary other than a Foreign Subsidiary.

"EBITDA" means, with reference to any period, Net Income for such period *plus* the sum of all amounts deducted in arriving at such Net Income amount in respect of (a) Interest Expense for such period, (b) federal, state, and local income taxes for such period, and (c) depreciation of fixed assets and amortization of intangible assets for such period, *minus*, to the extent otherwise included in Net Income for such period, any gain on the Disposition of the real property in Indianapolis, Indiana owned by Lincoln Technical Institute, Inc.

"EBITDAR" means, with reference to any period, EBITDA for such period *plus* Rental Expense for such period.

"Eligible Line of Business" means the business of operating educational facilities and/or programs providing postsecondary educational programs, vocational training and/or corporate training and each line of business related thereto.

"Environmental Claim" means any investigation, notice, demand, allegation, action, suit, injunction, judgment, order, consent decree, penalty, fine, lien, proceeding or claim (whether

administrative, judicial or private in nature) arising (a) pursuant to, or in connection with an actual or alleged violation of, any Environmental Law, (b) in connection with any Hazardous Material, (c) from any abatement, removal, remedial, corrective or response action in connection with a Hazardous Material, Environmental Law or order of a governmental authority relating thereto or (d) from any actual or alleged damage, injury, threat or harm to health and safety (as such relates to Hazardous Materials), natural resources or the environment.

"Environmental Law" means any current or future Legal Requirement pertaining to (a) the protection of health and safety (as such relates to Hazardous Materials) and the indoor or outdoor environment, (b) the conservation or management of natural resources and wildlife, (c) the protection of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, Release, threatened Release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release of Hazardous Material to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto, and the regulations promulgated and rulings issued thereunder.

"Eurodollar Loan" means a Loan bearing interest at the rate specified in Section 1.3(b) hereof.

"Eurodollar Reserve Percentage" is defined in Section 1.3(b) hereof.

"Event of Default" means any event or condition identified as such in Section 9.1 hereof.

"Event of Loss" means, with respect to any Property, any of the following: (a) any loss, destruction or damage of such Property or (b) any condemnation, seizure, or taking, by exercise of the power of eminent domain or otherwise, of such Property, or confiscation of such Property or the requisition of the use of such Property.

"Excess Net Cash Proceeds" is defined in Section 1.8(b) hereof.

"Existing Credit Agreement" means that certain Credit Agreement dated as of February 11, 2003 among Lincoln Technical Institute, Inc., the Guarantors party thereto and HTSB, as administrative agent and sole Lender, as amended as of the date hereof.

"Existing Letters of Credit" means the letters of credit set forth on Schedule 1.2 hereto.

"Federal Funds Rate" means the fluctuating interest rate per annum described in part (x) of clause (ii) of the definition of Base Rate appearing in Section 1.3(a) hereof.

"Financial Responsibility Composite Score" means the composite score of the Borrower's and its Subsidiaries', on a consolidated basis, equity, primary reserve and net income ratios described in 34 C.F.R. Sections 668.171(b)(1) and Section 668.172 and appendices A and B to Subpart L of 34 C.F.R. of Section 668, *provided* that if at any time the Borrower or its

Subsidiaries are required by the DOE to report such composite score on a School-by-School or other basis, their *"Financial Responsibility Composite Score"* shall also refer to the composite score for each School or other Person required to be reported to the DOE.

"Financing Obligation" means that certain sale-leaseback transaction with respect to real property between Lincoln Technical Institute, Inc. and W.P. Carey & Co. LLC that is treated as a financing obligation in accordance with GAAP.

"Five Mile River" means Five Mile River Capital Partners LLC, a Connecticut limited liability company.

"Fixed Charges" means, with reference to any period, the sum of (a) all scheduled cash payments of principal made or to be made with respect to Indebtedness for Borrowed Money of the Borrower and its Subsidiaries for such period on a consolidated basis, *plus* (b) cash Interest Expense for such period on a consolidated basis, *plus* (c) Rental Expense of the Borrower and its Subsidiaries on a consolidated basis for such period.

"Foreign Subsidiary" means each Subsidiary which is organized under the laws of a jurisdiction other than the United States of America or any state thereof.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Funds Transfer and Deposit Account Liability" means the liability of the Borrower or any of the Subsidiaries owing to any of the Lenders, or any Affiliates of such Lenders, arising out of (a) the execution or processing of electronic transfers of funds by automatic clearing house transfer, wire transfer or otherwise to or from the deposit accounts of the Borrower and/or any Subsidiary now or hereafter maintained with any of the Lenders or their Affiliates, (b) the acceptance for deposit or the honoring for payment of any check, draft or other item with respect to any such deposit accounts, and (c) any other deposit, disbursement, and cash management services afforded to the Borrower or any such Subsidiary by any of such Lenders or their Affiliates.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"Guarantor" and *"Guarantors"* each is defined in Section 12.1 hereof.

"Guaranty" and *"Guaranties"* each is defined in Section 4.3 hereof.

"Hazardous Material" means any substance, chemical, compound, product, solid, gas, liquid, waste or byproduct defined or regulated as a pollutant or contaminant under Environmental Law, and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof) and (b) any material classified or regulated as "hazardous" or "toxic" pursuant to an Environmental Law.

"Hedging Liability" means the liability of the Borrower or any Subsidiary to any of the Lenders, or any Affiliates of such Lenders, in respect of any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate floor agreements, interest rate exchange agreements, foreign currency contracts, currency swap contracts, or other similar interest rate or currency hedging arrangements as the Borrower or such Subsidiary, as the case may be, may from time to time enter into with any one or more of the Lenders party to this Agreement or their Affiliates.

"Hostile Acquisition" means the acquisition of the capital stock or other equity interests of a Person through a tender offer or similar solicitation of the owners of such capital stock or other equity interests which has not been approved (prior to such acquisition) by resolutions of the Board of Directors of such Person or by similar action if such Person is not a corporation, and as to which such approval has not been withdrawn.

"HTSB" is defined in the introductory paragraph of this Agreement.

"Indebtedness for Borrowed Money" means for any Person (without duplication) (a) all indebtedness of such Person for borrowed money, whether current or funded, or secured or unsecured, (b) all indebtedness for the deferred purchase price of Property or services, (c) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to Property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of a default are limited to repossession or sale of such Property), (d) all indebtedness secured by a purchase money mortgage or other Lien to secure all or part of the purchase price of Property subject to such mortgage or Lien, (e) all obligations under leases which shall have been or must be, in accordance with GAAP, recorded as Capital Leases in respect of which such Person is liable as lessee, (f) any reimbursement obligation or other liability in respect of banker's acceptances or letters of credit, calculated at the full face amount thereof, whether or not drawn upon or matured, as the case may be, and (g) any indebtedness referred to in clauses (a) through (f), above, whether or not assumed by such Person, secured by Liens on Property acquired by such Person at the time of acquisition thereof, it being understood that the term "Indebtedness for Borrowed Money" shall not include (x) trade payables arising in the ordinary course of business or (y) liabilities of any Person relating to the Financing Obligation.

"Interest Expense" means, with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Interest Period" is defined in Section 1.6 hereof.

"L/C Issuer" means Harris Trust and Savings Bank.

"L/C Obligations" means the aggregate undrawn face amounts of all outstanding Letters of Credit and all unpaid Reimbursement Obligations.

"L/C Sublimit" means $20,000,000, as reduced pursuant to the terms hereof.

"Legal Requirement" means any ratified treaty or convention, or any statute, law, regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any governmental authority, whether federal, state, or local.

"Lenders" means and includes Harris Trust and Savings Bank and the other financial institutions from time to time party to this Agreement, including each assignee Lender pursuant to Section 13.12 hereof.

"Lending Office" is defined in Section 10.4 hereof.

"Letter of Credit" is defined in Section 1.2(a) hereof.

"LIBOR" is defined in Section 1.3(b) hereof.

"Lien" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"Loan" means any Revolving Loan, whether outstanding as a Base Rate Loan or Eurodollar Loan or otherwise, each of which is a *"type"* of Loan hereunder.

"Loan Documents" means this Agreement, the Notes, the Applications and the Collateral Documents.

"Material Adverse Effect" means (a) a material adverse change in, or material adverse effect upon, the operations, business, Property, condition (financial or otherwise) or prospects of the Borrower and the Subsidiaries taken as a whole, (b) a material impairment of the ability of the Borrower or any Subsidiary to perform its material obligations under any Loan Document, (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against the Borrower or any Subsidiary of any of its material obligations under any Loan Document or the material rights and remedies of the Administrative Agent and the Lenders thereunder or (ii) the perfection or priority of any Lien granted under any Collateral Document on any material portion of the Collateral, or (d) the imposition by the DOE of a requirement that the Borrower, any Subsidiary or any School post or procure or obtain the issuance of a Title IV Letter of Credit in an amount in excess of the then-unused L/C Sublimit in order to establish the continued eligibility of the Borrower, any Subsidiary or any School to participate in Title IV Programs.

"Moody's" means Moody's Investors Service, Inc.

"Mortgages" means, collectively, each Mortgage and Security Agreement with Assignment of Rents and each Deed of Trust and Security Agreement with Assignment of Rents between the Borrower or the relevant Subsidiary and the Administrative Agent relating to such Person's real property owned as of the Closing Date and located in the states of Ohio, Indiana and Tennessee and any other mortgages or deeds of trust delivered to the Administrative Agent pursuant to Section 4.2 hereof, as the same may be amended, modified, supplemented or restated from time to time.

"Multiemployer Plan" means any employee pension benefit plan covered by Title IV of ERISA that is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Nashville" means Nashville Auto Diesel College, Inc., a Tennessee corporation.

"Net Cash Proceeds" means, as applicable, (a) with respect to any Disposition by a Person, cash and cash equivalent proceeds received by or for the account of such Person, net of (i) reasonable costs relating to such Disposition, (ii) sale, use or other transactional taxes paid or payable by such Person in connection with or as a result of such Disposition, and (iii) the aggregate principal amount of Indebtedness for Borrowed Money (other than the Obligations) secured by a Lien on any assets which are the subject of such Disposition and which indebtedness is required by its terms to be repaid in connection with such Disposition and release of Lien, (b) with respect to any Event of Loss suffered by a Person, cash and cash equivalent proceeds received by or for the account of such Person (whether as a result of payments made under any applicable insurance policy therefor or in connection with condemnation proceedings or otherwise), net of reasonable costs incurred in connection with the collection of such proceeds, awards or other payments, and (c) with respect to any offering by a Person of equity securities of such Person or the issuance by such Person of any Indebtedness for Borrowed Money of such Person, cash and cash equivalent proceeds received by or for the account of such Person, net of reasonable legal, underwriting, and other fees, discounts and expenses relating to such offering or issuance.

"Net Income" means, with reference to any period, the net income (or net loss) of the Borrower and the Subsidiaries for such period computed on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded from Net Income (a) the net income (or net loss) of any Person accrued prior to the date it becomes a Subsidiary of, or has merged into or consolidated with, the Borrower or another Subsidiary, and (b) the net income (or net loss) of any Person (other than a Subsidiary) in which the Borrower or any of the Subsidiaries has a equity interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of the Subsidiaries during such period.

"Net Worth" means, for any Person and at any time the same is to be determined, total shareholder's equity (including capital stock, additional paid-in capital, and retained earnings after deducting treasury stock) which would appear on the balance sheet of such Person in accordance with GAAP.

"Notes" means and includes the Revolving Notes.

"Obligations" means all obligations of the Borrower to pay principal and interest on the Loans, all Reimbursement Obligations owing under the Applications, all fees and charges payable hereunder, and all other payment obligations of the Borrower or any of their Subsidiaries arising under or in relation to any Loan Document, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired.

"Operating Lease" means any lease of Property other than a Capital Lease.

"Participating Interest" is defined in Section 1.2(d) hereof.

"Participating Lender" is defined in Section 1.2(d) hereof.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

"Percentage" means for any Lender its Revolver Percentage.

"*Permitted Acquisition*" means (1) with respect to any Acquisition, an Acquisition with respect to which all of the following conditions shall have been satisfied:

(a) the Acquired Business is in an Eligible Line of Business and has its primary operations within the United States of America;

(b) the Acquisition shall not be a Hostile Acquisition;

(c) if a new Subsidiary is formed or acquired as a result of or in connection with the Acquisition, the Borrower and any Subsidiary (as applicable) shall have complied with the requirements of Section 4 hereof in connection therewith;

(d) after giving effect to the Acquisition, no Default or Event of Default shall exist, including with respect to the covenants contained in Section 8.22 on a pro forma basis;

(e) the Administrative Agent shall have received pro forma calculations reasonably satisfactory to it showing, on a pro forma basis for the Borrower and the Subsidiaries and the Acquired Business, compliance at a level satisfactory to the Administrative Agent with all financial ratios required by the DOE with respect to the Borrower and each School, including without limitation the financial responsibility and 90/10 ratios;

(f) the Acquired Business shall have had Acquired EBITDA of not less than —$5,000,000 in aggregate for its four most recently completed fiscal quarters; and

(g) after giving effect to the Acquisition and any Credit Events in connection therewith, the Borrower shall have a minimum of $5,000,000 in Unused Revolving Credit Commitments;

(2) with respect to any Acquisition for which the aggregate Total Consideration paid by the Borrower or any of the Subsidiaries for the Acquired Business is equal to or greater than $20,000,000 but less than $35,000,000, an Acquisition with respect to which all of the following conditions shall have been satisfied:

(a) the financial statements of the Acquired Business shall have been audited by an independent accounting firm of national or regional repute or otherwise reasonably satisfactory to the Administrative Agent ("*Acceptable Accounting Firm*"), or if such financial statements have not been audited by such an accounting firm, such financial statements shall have been approved by the Administrative Agent;

(b) the Administrative Agent has received due diligence material in form and substance reasonably satisfactory to it with respect to the Acquired Business, including without limitation a review of all regulatory compliance at the Acquired Business and, the Acquired Business shall have undergone a successful so-called businessman's review by an Acceptable Accounting Firm as part of the Borrower's due diligence on the Acquisition (whether or not financial statements audited by an Acceptable Accounting Firm have been provided with respect to such Acquired Business);

(c) the Acquired Business shall have had Acquired EBITDA of not less than $0 for its most recently completed fiscal quarter and, in aggregate, for its four most recently completed fiscal quarters; and

(d) the Borrower shall have notified the Administrative Agent and Lenders not less than 45 days prior to any such Acquisition and furnished to the Administrative Agent and Lenders at such time reasonable details as to such Acquisition (including sources and uses of funds therefor), and 3-year historical financial information and 3-year pro forma financial forecasts of the Acquired Business on a stand alone basis as well as of the Borrower on a consolidated basis after giving effect to the Acquisition, together with covenant compliance calculations satisfactory to the Administrative Agent showing pro forma compliance with Section 8.22 hereof, both before and after the proposed Acquisition (and giving effect to any Borrowing or equity issuance in connection therewith), for the four fiscal quarter period ending at the end of the last fiscal quarter ending prior to the date of such Acquisition, and assuming for the purpose of such pro forma calculations that such Acquisition had taken place on the first day of such four fiscal quarter period, and with any adjustments to EBITDA as a result of or in connection with such Acquisition to be subject to the approval of the Administrative Agent and substantiated by third party due diligence reasonably acceptable to the Administrative Agent; and

(3) with respect to any Acquisition with the aggregate Total Consideration paid by the Borrower or any of the Subsidiaries for the Acquired Business greater than $35,000,000, the Required Lenders consent to such Acquisition.

"Permitted Liens" means Liens of the types permitted pursuant to Section 8.8(a)-(i) hereof, inclusive.

"Permitted Management Fees" means management fees, consulting fees, finders' fees or similar fees in an aggregate amount not to exceed the sum of $1,050,000 per fiscal year of the Borrower, plus an additional $500,000 with respect to each Permitted Acquisition, *provided* that (i) an amount not less than the lesser of (1) $750,000 and (2) the amount of Permitted Management Fees actually incurred by the Borrower and the Subsidiaries during any fiscal year of the Borrower (and payable to any Person other than the Borrower or any Subsidiary) is charged against revenues in the determination of Net Income for such fiscal year, and (ii) the amount of any Permitted Management Fees incurred by the Borrower and the Subsidiaries during any fiscal year of the Borrower (and payable to any Person other than the Borrower or any Subsidiary) and not charged against revenues in the determination of Net Income for such fiscal year shall be included within Total Consideration in calculating the Borrower's compliance with the provisions of Section 8.9 hereof.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization or any other entity or organization, including a government or agency or political subdivision thereof or a School.

"Plan" means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that is maintained by a member of the Controlled Group for employees of a member of the Controlled Group.

"Pledge Agreement" means that certain Pledge Agreement dated the date of this Agreement among the Borrower and the Subsidiaries and the Administrative Agent, as the same may be amended, modified, supplemented or restated from time to time.

"Premises" means the real property owned or leased by the Borrower or any Subsidiary, including without limitation the real property and improvements thereon owned by the Borrower or any Subsidiary subject to the Lien of the Mortgages or any other Collateral Documents.

"Property" means, as to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent balance sheet of such Person and its subsidiaries under GAAP.

"Purchase Money Indebtedness" means indebtedness incurred to finance the purchase price of, or cost of construction or improvement of, Property at the time of or within 90 days before or after the date of such purchase, construction or improvement and in a principal amount not exceeding the purchase price or cost of such construction or improvement, as the case may be, of such Property.

"RCRA" means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 *et seq.*, and any future amendments.

"Reimbursement Obligation" is defined in Section 1.2(c) hereof.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding of barrels, drums, containers, tanks or other receptacles containing any Hazardous Material.

"Rental Expense" means obligations for fixed rentals or other consideration payable to any Person (other than to the Borrower or a Wholly-owned Subsidiary) under Operating Leases payable during such period on a consolidated basis.

"Required Lenders" means, as of the date of determination thereof, Lenders whose Revolving Credit Commitments constitute more than 50% of the Revolving Credit Commitments of all the Lenders or, if the Revolving Credit Commitments have been terminated, Lenders whose outstanding Loans and interests in Letters of Credit constitute more than 50% of the sum of the total outstanding Loans and interests in Letters of Credit of the Lenders.

"Revolver Percentage" means, for each Lender, the percentage of the aggregate Revolving Credit Commitments of all Lenders represented by such Lender's Revolving Credit Commitment or, if the Revolving Credit Commitments have been terminated, the percentage held by such Lender (including through participation interests in Reimbursement Obligations) of the aggregate principal amount of all Revolving Loans and L/C Obligations then outstanding.

"Revolving Credit" means the credit facility for making Revolving Loans and issuing Letters of Credit described in Sections 1.1 and 1.2 hereof.

"Revolving Credit Commitment" means, as to any Lender, the obligation of such Lender to make Revolving Loans and to participate in Letters of Credit issued for the account of the Borrower hereunder in an aggregate principal or face amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 1 attached hereto and made a part hereof, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof. The Borrower and the Lenders acknowledge and agree that the Revolving Credit Commitments of the Lenders aggregate $100,000,000 on the date hereof.

"Revolving Credit Termination Date" means February 15, 2010, or such earlier date on which the Revolving Credit Commitments are terminated in whole pursuant to Section 1.13, 9.2 or 9.3 hereof.

"Revolving Loan" is defined in Section 1.2 hereof and, as so defined, includes a Base Rate Loan or a Eurodollar Loan, each of which is a *"type"* of Revolving Loan hereunder.

"Revolving Note" is defined in Section 1.10 hereof.

"S&P" means Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc.

"School" means a postsecondary institution of higher education and its additional locations, taken together, operated by the Borrower or any Subsidiary.

"Secretary of the DOE" shall mean the Secretary of the DOE or an official employee of the DOE acting for the Secretary of the DOE under a delegation of authority.

"Security Agreement" means that certain Security Agreement dated the date of this Agreement among the Borrower and the Subsidiaries and the Administrative Agent, as the same may be amended, modified, supplemented or restated from time to time.

"Significant Regulatory Event" means, as the context may require, either (a) a failure of a Person to maintain its status as an "eligible institution", as defined in 34 C.F.R. Sections 600.2 and 600.5, (b) a failure of a Person to maintain its eligibility to participate in Title IV Programs (including without limitation any suspension or termination of Title IV funding), (c) a failure of a Person to maintain in effect any of its Accreditations, or (d) a failure of a Person to maintain in full force and effect its licenses to provide post-secondary education in any jurisdiction, which failure of any of the types described in clauses (a), (b), (c) and (d) when taken together with all other such failures of any of the types described in clauses (a), (b), (c) and (d) occurring during the current fiscal quarter and the three previous fiscal quarters of the Borrower, affects (x) Schools which contributed more than 10% of the EBITDA of the Borrower and the Subsidiaries for the most recent four complete fiscal quarters of the Borrower, or (y) Schools the assets of which comprise more than 10% of the Borrower's Consolidated Total Assets as of the end of its most recent fiscal quarter.

"Stonington" means Stonington Partners, Inc., a Delaware corporation.

"Subsidiary" means, as to any particular parent corporation or organization, any other corporation or organization more than 50% of the outstanding Voting Stock of which is at the time directly or indirectly owned by such parent corporation or organization or by any one or more other entities which are themselves subsidiaries of such parent corporation or organization. Unless otherwise expressly noted herein, the term *"Subsidiary"* means a Subsidiary of the Borrower or of any of its direct or indirect Subsidiaries.

"Taxes" is defined in Section 13.1 hereof.

"Title IV Letter of Credit" means a letter of credit required by the DOE to enable the Borrower, any Subsidiary or a School to satisfy the DOE's requirements of financial responsibility necessary for its continued eligibility to participate in the Title IV Programs.

"Title IV Programs" means the Title IV Programs as listed in 34 C.F.R. Section 668.1(c).

"Total Consideration" means, with respect to an Acquisition by any Person, the total amount (but without duplication) of (a) cash paid by such Person in connection with any Acquisition, *plus* (b) Indebtedness for Borrowed Money payable by such Person to the seller in connection with such Acquisition, *plus* (c) the fair market value of any equity securities, including any warrants or options therefor, delivered in connection with any Acquisition, *plus* (d) the present value of covenants not to compete entered into in connection with such Acquisition or other future payments which are required to be made over a period of time and are not contingent upon the Borrower or any Subsidiary meeting financial performance objectives (exclusive of salaries paid in the ordinary course of business) (discounted at the rate of 10% per annum), but only to the extent not included in clause (a), (b) or (c) above, *plus* (e) the amount of Indebtedness for Borrowed Money assumed by such Person in connection with such Acquisition.

"Total Funded Debt" means, at any time the same is to be determined, the aggregate of all Indebtedness for Borrowed Money of the Borrower and the Subsidiaries at such time, including all Indebtedness for Borrowed Money of any other Person which is directly or indirectly guaranteed by the Borrower or any of the Subsidiaries or which the Borrower or any of the Subsidiaries has agreed (contingently or otherwise) to purchase or otherwise acquire or in respect of which the Borrower or any of the Subsidiaries has otherwise assured a creditor against loss.

"Total Funded Debt/Adjusted EBITDA Ratio" means, as of the last day of any fiscal quarter of the Borrower, the ratio of Total Funded Debt of the Borrower and the Subsidiaries as of the last day of such fiscal quarter to Adjusted EBITDA of the Borrower and the Subsidiaries for the period of four fiscal quarters then ended.

"Unfunded Vested Liabilities" means, for any Plan at any time, the amount (if any) by which the present value of all vested nonforfeitable accrued benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"Unused Revolving Credit Commitments" means, at any time, the amount, if any, by which the Revolving Credit Commitments then in effect exceed the aggregate then outstanding principal amount of Revolving Loans and L/C Obligations.

"U.S. Dollars" and *"$"* each means the lawful currency of the United States of America.

"Voting Stock" of any Person means capital stock or other equity interests of any class or classes (however designated) having ordinary power for the election of directors or other similar

governing body of such Person, other than stock or other equity interests having such power only by reason of the happening of a contingency.

"Welfare Plan" means a "welfare plan" as defined in Section 3(1) of ERISA that is maintained for employees of the Borrower or any other member of the Controlled Group or in respect of which the Borrower or any member of the Controlled Group could have liability.

"Wholly-owned Subsidiary" means a Subsidiary of which all of the issued and outstanding shares of capital stock (other than directors' qualifying shares as required by law) or other equity interests are owned by the Borrower and/or one or more Wholly-owned Subsidiaries within the meaning of this definition.

Section 5.2. *Interpretation*. The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. The words *"hereof"*, *"herein"*, and *"hereunder"* and words of like import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All references to time of day herein are references to Chicago, Illinois, time unless otherwise specifically provided. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Agreement.

Section 5.3. *Change in Accounting Principles*. If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 6.5 hereof and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Borrower or the Required Lenders may by notice to the Lenders and the Borrower, respectively, require that the Lenders and the Borrower negotiate in good faith to amend such covenants, standards, and term so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Borrower and the Subsidiaries shall be the same as if such change had not been made. No delay by the Borrower or the Required Lenders in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 5.3, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles. Without limiting the generality of the foregoing, the Borrower shall neither be deemed to be in compliance with any financial covenant hereunder nor out of compliance with any financial covenant hereunder if such state of compliance or noncompliance, as the case may be, would not exist but for the occurrence of a change in accounting principles after the date hereof.

SECTION 6. REPRESENTATIONS AND WARRANTIES .

The Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

Section 6.1. *Organization and Qualification*. The Borrower is duly organized, validly existing and in good standing as a corporation under the laws of the state of its incorporation, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.2. *Subsidiaries*. Each Subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated or organized, as the case may be, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Schedule 6.2 hereto identifies each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by the Borrower and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 6.2 as owned by the Borrower or another Subsidiary are owned, beneficially and of record, by the Borrower or such Subsidiary free and clear of all Liens other than the Liens granted in favor of the Administrative Agent pursuant to the Collateral Documents and any Liens permitted under Section 8.8(a) or (c) hereof. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary. Schedule 6.2 also identifies each School and its identification number.

Section 6.3. *Authority and Validity of Obligations.* The Borrower has full right and authority to enter into this Agreement and the other Loan Documents executed by it, to make the borrowings herein provided for, to issue its Notes in evidence thereof, to grant to the Administrative Agent the Liens described in the Collateral Documents executed by the Borrower, and to perform all of its obligations hereunder and under the other Loan Documents executed by it. Each Subsidiary has full right and authority to enter into the Loan Documents executed by it, to guarantee (in the case of the Subsidiaries only) the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability, to grant to the Administrative Agent the Liens described in the Collateral Documents executed by such Person, and to perform all of its obligations under the Loan Documents executed by it. The Loan Documents delivered by the Borrower and by each Subsidiary have been duly authorized, executed, and delivered by such Person and constitute valid and binding obligations of such Person enforceable against it in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law); and this Agreement and the other Loan Documents do not, nor does the performance or observance by the Borrower or any Subsidiary of any of the matters and things herein or therein provided for, (a) contravene or constitute a default under any provision of law (which, in the case of any such performance or observance after the Closing Date, could reasonably be expected to have a Material Adverse Effect) or contravene or constitute a default under any judgment, injunction, order or decree binding upon the Borrower or any Subsidiary or any provision of the organizational documents (e.g., charter, articles of incorporation or by-laws, articles of association or operating agreement, partnership agreement or other similar document) of the Borrower or any Subsidiary, (b) contravene or constitute a default under any covenant, indenture or agreement of or affecting the Borrower or any Subsidiary or any of its Property, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or (c) result in the creation or imposition of any Lien on any Property of the Borrower or any Subsidiary other than the Liens granted in favor of the Administrative Agent pursuant to the Collateral Documents.

Section 6.4. *Use of Proceeds; Margin Stock*. The Borrower shall, and shall permit the Subsidiaries to, use the proceeds of the Revolving Credit to refinance existing indebtedness, to finance Capital Expenditures, to finance Permitted Acquisitions, to pay transaction expenses relating to any of the foregoing, for its general working capital purposes, to issue Title IV Letters of Credit and for such other legal and proper purposes as are consistent with all applicable laws. Neither the Borrower nor any Subsidiary is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or any other extension of credit made hereunder will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

Section 6.5. *Financial Reports*. The restated consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2003, and the related restated consolidated statements of income, retained earnings and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, and accompanying notes thereto, which financial statements are accompanied by the audit report of Deloitte & Touche LLP, independent public accountants, and the unaudited interim consolidated balance sheet of the Borrower and its Subsidiaries as at September 30, 2004, and the related consolidated statements of income, retained earnings and cash flows of the Borrower and its Subsidiaries for the 9 months then ended, heretofore furnished to the Administrative Agent and the Lenders, fairly present in all material respects the consolidated financial condition of the Borrower and its Subsidiaries as at said dates and the consolidated results of their operations and cash flows for the periods then ended in conformity with GAAP applied on a consistent basis. Neither the Borrower nor any Subsidiary has contingent liabilities which are material to the Borrower and the Subsidiaries, taken as a whole, other than as indicated in such restated financial statements (including the footnotes thereto) or, with respect to future periods, in the financial statements (including the footnotes thereto) furnished pursuant to Section 8.5 hereof.

Section 6.6. *No Material Adverse Effect.* Since December 31, 2003, there has been no Material Adverse Effect.

Section 6.7. *Full Disclosure*. The written information furnished by the Borrower to the Administrative Agent in connection with the negotiation of this Agreement and the other Loan Documents (excluding the financial reports covered by the representation and warranty in Section 6.5 hereof and the written information covered by the representation and warranty in the next succeeding sentence) does not contain, as of the Closing Date, any materially untrue statements of a material fact or, as of the Closing Date, omit a material fact necessary to make the material statements contained herein or therein not materially misleading. The projections, estimates, forecasts, budgets, statements of opinion or intent and discussions of strategy contained in such written information have been prepared in good faith based upon reasonable assumptions (it being understood that such projections, estimates, forecasts, budgets, statements of opinion or intent and discussions of strategy are subject to significant uncertainties and contingencies, and that no assurance can be given that any particular projections, estimates, forecasts or budgets will be realized).

Section 6.8. *Trademarks, Franchises, and Licenses*. The Borrower and the Subsidiaries own, possess, or have the right to use all necessary patents, licenses, franchises, trademarks, trade names, trade styles, copyrights, trade secrets, know how, and confidential commercial and proprietary information to conduct their businesses as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, trade style, copyright or other proprietary right of any other Person.

Section 6.9. *Governmental Authority and Licensing*. The Borrower and the Subsidiaries have received all licenses, permits, and approvals of all federal, state, and local governmental authorities, including without limitation the DOE and all state education departments, necessary to conduct their businesses, in each case where the failure to obtain or maintain the same could reasonably be expected to have a Material Adverse Effect. Without limiting the foregoing, the Borrower and the Subsidiaries have qualified under all necessary laws and regulations to participate in Title IV Programs. No investigation or proceeding which, if adversely determined, could reasonably be expected to result in revocation or denial of any material license, permit or approval is pending or, to the knowledge of the Borrower, threatened. The educational programs of the Borrower and the Subsidiaries have been accredited by Accrediting Commission for Career Schools and Colleges of Technology, and no such accreditation has been denied, suspended or revoked, except for any such denial, suspension or revocation which could not reasonably be expected to have a Material Adverse Effect.

Section 6.10. *Good Title.* The Borrower and the Subsidiaries have good title to (or valid leasehold interests in) their assets as reflected on the most recent consolidated balance sheet of the Borrower and the Subsidiaries furnished to the Administrative Agent and the Lenders (except for sales or other dispositions of assets since the date of such consolidated balance sheet which are permitted hereunder), subject to no Liens other than such thereof as are permitted by Section 8.8 hereof.

Section 6.11. *Litigation and Other Controversies.* There is no litigation or governmental proceeding or labor controversy pending, nor to the knowledge of the Borrower threatened, against the Borrower or any Subsidiary which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 6.12. *Taxes.* All tax returns required to be filed by the Borrower or any Subsidiary in any jurisdiction have, in fact, been filed, and all taxes, assessments, fees, and other governmental charges upon the Borrower or any Subsidiary or upon any of its Property, income or franchises, which are shown to be due and payable in such returns, have been paid, except such taxes, assessments, fees and governmental charges, if any, as are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and as to which adequate reserves established in accordance with GAAP have been provided. The Borrower does not know of any proposed additional tax assessment against it or the Subsidiaries for which adequate provisions in accordance with GAAP have not been made on their accounts. Adequate provisions in accordance with GAAP for taxes on the books of the Borrower and each Subsidiary have been made for all open years, and for its current fiscal period.

Section 6.13. *Approvals*. No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution, delivery or performance by the Borrower or any Subsidiary of any Loan Document to which it is a party, except for such approvals which have been obtained prior to the date of this Agreement and remain in full force and effect.

Section 6.14. *Affiliate Transactions.* Neither the Borrower nor any Subsidiary is a party to any contracts or agreements with any of its Affiliates (other than with Wholly-owned Subsidiaries) on terms and conditions which are less favorable to the Borrower or such Subsidiary than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other, except for any management, consulting or similar agreements resulting in the payment of Permitted Management Fees.

Section 6.15. *Investment Company; Public Utility Holding Company.* Neither the Borrower nor any Subsidiary is an “investment company” or a company “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended, or a “holding company” within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 6.16. *ERISA*. Except to the extent not reasonably expected to result in a liability of the Borrower or any Subsidiary in an amount in excess of $1,000,000 collectively for all such Persons, the Borrower and each other member of its Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any material liability which has not been satisfied to the PBGC or a Plan or a Multiemployer Plan under Title IV of

ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. Neither the Borrower nor any Subsidiary has any contingent liabilities with respect to any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in Article 6 of Title I of ERISA.

Section 6.17. *Compliance with Laws*. The Borrower and the Subsidiaries are in compliance with the requirements of all federal, state and local laws, rules and regulations applicable to or pertaining to their Property or business operations (including, without limitation, Title IV, the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act of 1990, and Environmental Laws), where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. Without limiting generality of the foregoing and notwithstanding any limitations contained therein, all of the Borrower's and each Subsidiary's operations are in compliance with (i) all laws, regulations and standards, the violation of which would terminate or materially impair the Borrower's, any Subsidiary's or any School's eligibility for participation in student financial assistance programs under Title IV, (ii) the federal Truth-in-Lending Act, 15 U.S.C. § 1601 *et seq.,* and all other consumer credit laws applicable to the Borrower, any Subsidiary or any School in connection with the advancing of student loans, except for such laws and regulations the violation of which, in the aggregate, will not result in the assessment of penalties and damages claims against the Borrower or any Subsidiary which are in excess of 5% of Borrower's Consolidated Total Assets or which (even if in a lesser amount) could reasonably be expected to have a Material Adverse Effect, (iii) all statutory and regulatory requirements for authorization to provide post-secondary education in the jurisdictions in which its educational facilities are located except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect and (iv) all requirements to continuing its Accreditations, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received any written Environmental Claim, where any non-compliance or remedial action relating to the subject matter of such Environmental Claim, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 6.18. *Other Agreements.* Neither the Borrower nor any Subsidiary is in default under the terms of any covenant, indenture or agreement of or affecting such Person or any of its Property, which default could reasonably be expected to have a Material Adverse Effect.

Section 6.19. *Solvency.* The Borrower and the Subsidiaries are solvent, able to pay their debts as they become due, and have sufficient capital to carry on their business and all businesses in which they are about to engage.

Section 6.20. *No Default.* No Default or Event of Default has occurred and is continuing.

Section 6.21 *Anti-Terrorism Law.* (a) Neither the Borrower nor any of its Subsidiaries, nor to the knowledge of the Borrower, any of their respective Affiliates, is in violation of any laws relating to terrorism or money laundering (*"Anti-Terrorism Laws"*), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the *"Executive Order"*), and the Uniting and Strengthening America by Providing Appropriate Tools Required to

Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, signed into law October 26, 2001 (the *"USA Patriot Act"*).

(b) Neither the Borrower nor any of its Subsidiaries, nor to the knowledge of the Borrower, any of their respective Affiliates, or brokers or other agents of such Person acting or benefiting in any capacity in connection with the Loans hereunder, is any of the following:

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(iii) a Person with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person that commits, threatens or conspires to commit or supports *"terrorism"* as defined in the Executive Order; or

(v) a Person that is named as a *"specially designed national and blocked person"* on the most current list published by the USA Treasury Department Office of Foreign Assets Control (*"OFAC"*) at its official website or any replacement website or other replacement official publication of such list.

(c) Neither the Borrower nor any of its Subsidiaries, nor to the knowledge of the Borrower, any of their respective Affiliates, or brokers or other agents of such Person acting or benefiting in any capacity in connection with the Loans hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Person described in clause (b) above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

SECTION 7. CONDITIONS PRECEDENT.

The obligation of each Lender to advance any Loan or of the L/C Issuer to issue, extend the expiration date (including by not giving notice of non-renewal) of or increase the amount of any Letter of Credit under this Agreement, shall be subject to the following conditions precedent:

Section 7.1. All Credit Events. At the time of each Credit Event hereunder:

(a) each of the representations and warranties set forth herein and in the other Loan Documents shall be and remain true and correct in all material respects as of said time, except to the extent the same expressly relate to an earlier date;

(b) no Default or Event of Default shall have occurred and be continuing or would occur as a result of such Credit Event;

(c) in the case of a Borrowing, the Administrative Agent shall have received the notice required by Section 1.5 hereof, in the case of the issuance of any Letter of Credit, the L/C Issuer shall have received a duly completed Application for such Letter of Credit together with any fees called for by Section 2.1 hereof, and, in the case of an extension (other than an automatic extension) or increase in the amount of a Letter of Credit, a written request therefor in a form acceptable to the L/C Issuer together with fees called for by Section 2.1 hereof; and

(d) such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Administrative Agent or any Lender (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System) as then in effect.

Each request for a Borrowing hereunder and each request for the issuance of, increase in the amount of, or extension of the expiration date of, a Letter of Credit shall be deemed to be a representation and warranty by the Borrower on the date on such Credit Event as to the facts specified in subsections (a) through (c), both inclusive, of this Section.

Section 7.2. *Initial Credit Event.* Before or concurrently with the initial Credit Event:

(a) the Administrative Agent shall have received for each Lender this Agreement duly executed by the Borrower, any Guarantors and the Lenders;

(b) the Administrative Agent shall have received for each Lender such Lender's duly executed Notes of the Borrower dated the date hereof and otherwise in compliance with the provisions of Section 1.10 hereof;

(c) the Administrative Agent shall have received the Mortgages, Security Agreement and Pledge Agreement duly executed, as appropriate, by the Borrower and each Subsidiary, together with (i) original stock certificates or other similar instruments or securities representing all of the issued and outstanding shares of capital stock or other equity interests in each Subsidiary (66% of such capital stock in the case of any Foreign Subsidiary as provided in Section 4.1 hereof) as of the Closing Date, (ii) stock powers for the Collateral consisting of the stock or other equity interest in each Subsidiary executed in blank and undated, (iii) UCC financing statements to be filed against the Borrower and each Subsidiary, as debtor, in favor of the Administrative Agent, as secured party, (iv) patent, trademark, and copyright collateral assignments to the extent reasonably requested by the Administrative Agent, and (v) deposit account and securities account control agreements to the extent reasonably requested by the Administrative Agent;

(d) the Administrative Agent shall have received evidence of insurance required to be maintained under the Loan Documents, naming the Administrative Agent as mortgagee and loss payee;

(e) the Administrative Agent shall have received for each Lender copies of the Borrower's and each Subsidiary's articles of incorporation and bylaws (or comparable organizational documents) and any amendments thereto, certified in each instance by its Secretary or Assistant Secretary;

(f) the Administrative Agent shall have received for each Lender copies of resolutions of the Borrower's and each Subsidiary's Board of Directors (or similar governing body) authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, together with specimen signatures of the persons authorized to execute such documents on the Borrower's or such Subsidiary's behalf, all certified in each instance by its Secretary or Assistant Secretary;

(g) the Administrative Agent shall have received for each Lender copies of the certificates of good standing for the Borrower and each Subsidiary (dated no earlier than 30 days prior to the date hereof) from the office of the secretary of the state of its incorporation or organization and of each state in which it is qualified to do business as a foreign corporation or organization, provided that, to the extent that (i) the Borrower has not delivered a Colorado good standing certificate for Lincoln Technical Institute, Inc. prior to the initial Credit Event or (ii) any other good standing certificates delivered are dated more than 30 days prior to the Closing Date, the Borrower undertakes and agrees to deliver to the Administrative Agent within 15 days of the Closing Date the applicable good standing certificates dated no earlier than February 1, 2005 with respect to each of such Persons;

(h) the Administrative Agent shall have received for each Lender a list of the Borrower's Authorized Representatives;

(i) the Administrative Agent shall have received for itself and for the Lenders the fees called for by Section 2.1 hereof which are to be paid on or prior to the Closing Date;

(j) the Administrative Agent shall have received a mortgagee's title insurance policy (or a prepaid binding commitment therefor) in form and substance reasonably acceptable to the Administrative Agent from a title insurance company reasonably acceptable to the Administrative Agent in the aggregate amount of $32,698,000 insuring the Lien of the Mortgage on the Borrower's real property located in Cincinnati, Ohio, Indianapolis, Indiana and Nashville, Tennessee to be a valid first priority Lien subject to no defects or objections which are unacceptable to the Administrative Agent, together with such endorsements as the Administrative Agent may reasonably require;

(k) the Administrative Agent shall have been provided (x) copies of all environmental assessments (other than those delivered to the Administrative Agent in connection with the Existing Credit Agreement) that are in the possession of the Borrower or any of its Subsidiaries relating to the parcels of real property subject to the Lien of the Mortgages and (y) a Phase I environmental assessment reasonably satisfactory in form and substance to the Administrative Agent of the real property located in Cincinnati, Ohio subject to the Lien of the Mortgages;

(l) the Administrative Agent shall have received surveys in form and substance reasonably acceptable to the Administrative Agent prepared by licensed surveyors on each parcel of real property located in Nashville, Tennessee and Cincinnati, Ohio subject to the Liens of the Mortgages, which surveys shall also state whether or not any portion of the real property is in a federally designated flood hazard area;

(m) each Lender shall have received such evaluations and certifications as it may reasonably require (including a compliance certificate in the form attached hereto as Exhibit E containing compliance calculations of the financial covenants as of September 30, 2004, and satisfactory results of regulatory and collateral audits) in order to satisfy itself as to the financial condition of the Borrower and the Subsidiaries, and the lack of material contingent liabilities of the Borrower and the Subsidiaries;

(n) the Administrative Agent shall have received financing statement, tax, and judgment lien search results against the Borrower and each Subsidiary evidencing the absence of Liens on its Property except as permitted by Section 8.8 hereof;

(o) the Administrative Agent shall have received pay-off and lien release letters from secured creditors of the Borrower and each Subsidiary setting forth, among other things, the total amount of indebtedness outstanding and owing to them (or outstanding letters of credit issued for the account of the Borrower or any Subsidiary) and containing an authorization for the Administrative Agent to file UCC termination statements and an undertaking to cause to be delivered to the Administrative Agent any other lien release instruments necessary to release their Liens on the assets of the Borrower and each Subsidiary, which pay-off and lien release letters shall be in form and substance reasonably acceptable to the Administrative Agent;

(p) the Administrative Agent shall have received for each Lender the favorable written opinion of counsel to the Borrower and the Subsidiaries, in form and substance reasonably satisfactory to the Administrative Agent;

(q) the Administrative Agent shall have received evidence satisfactory to it that the Adjusted EBITDA of the Borrower, with any adjustments thereto being acceptable to the Administrative Agent, for the twelve months ending on September 30, 2004 was not less than $35,000,000;

(r) the Lenders shall be satisfied with the Borrower's capital structure and with the terms and conditions of any agreements relating thereto;

(s) the Borrower shall have opened one or more operating accounts at Harris Trust and Savings Bank;

(t) each Lender shall have received all documentation and other information reasonably requested by it and required by bank regulatory authorities under applicable *"know your customer"* and anti-money laundering rules and regulations, including without limitation the USA Patriot Act; and

(u) the Administrative Agent shall have received for the account of the Lenders such other agreements, instruments, documents, certificates, and opinions as the Administrative Agent or any Lender may reasonably request.

SECTION 8. COVENANTS.

The Borrower agrees that, so long as any credit is available to or in use by the Borrower hereunder, except to the extent compliance in any case or cases is waived in writing pursuant to the terms of Section 13.13 hereof:

Section 8.1. Maintenance of Business. The Borrower shall, and shall cause each Subsidiary to, preserve and maintain its existence, except as otherwise provided in Section 8.10(c) hereof. The Borrower shall, and shall cause each Subsidiary to, preserve and keep in force and effect all licenses, permits, franchises, approvals, patents, trademarks, trade names, trade styles, copyrights, and other proprietary rights necessary to the proper conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing and notwithstanding any limitation contained therein, the Borrower will, and will cause each School to, maintain in full force and effect, except to the extent that the failure to do so would not constitute a Significant Regulatory Event, (i) its status as an "eligible institution," as defined in 34 C.F.R. Sections 600.2 and 600.5, (ii) its eligibility to participate in all Title IV Programs in which and to the extent that it currently participates, (iii) its Accreditations, and (iv) its licenses to provide postsecondary education in all jurisdictions where it is so licensed. Without limiting the generality of the foregoing and notwithstanding any limitations contained therein, the Borrower will, and will cause each School to, comply with all of the factors of financial responsibility set forth in 34 C.F.R. Section 668, 171-175, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary shall conduct any business other than an Eligible Line of Business.

Section 8.2. Maintenance of Properties. The Borrower shall, and shall cause each Subsidiary to, maintain, preserve, and keep its property, plant, and equipment in good repair, working order and condition (ordinary wear and tear excepted), except to the extent that, in the reasonable business judgment of such Person, any such Property is no longer necessary for the proper conduct of the business of such Person.

Section 8.3. Taxes and Assessments. The Borrower shall duly pay and discharge, and shall cause each Subsidiary to duly pay and discharge, all taxes, governmental assessments, and other governmental charges upon or against it or its Property, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

Section 8.4. *Insurance.* The Borrower shall insure and keep insured, and shall cause each Subsidiary to insure and keep insured, with good and responsible insurance companies, all insurable Property owned by it which is of a character usually insured by Persons similarly situated and operating like Properties against loss or damage from such hazards and risks, and in such amounts, as are insured by Persons similarly situated and operating like Properties; and the Borrower shall insure, and shall cause each Subsidiary to insure, such other hazards and risks (including, without limitation, employers' and public liability risks) with good and responsible insurance companies, as and to the extent usually insured by Persons similarly situated and conducting similar businesses. The Borrower shall in any event maintain, and cause each Subsidiary to maintain, insurance on the Collateral to the extent required by the Collateral Documents. The Borrower shall, upon the request of the Administrative Agent, furnish to the Administrative Agent and the Lenders a certificate setting forth in summary form the nature and extent of the insurance maintained pursuant to this Section.

Section 8.5. *Financial Reports.* The Borrower shall, and shall cause each Subsidiary to, maintain a standard system of accounting in accordance with GAAP and shall furnish to the Administrative Agent (for distribution to the Lenders) such information respecting the business and financial condition of the Borrower and each Subsidiary as the Administrative Agent or any Lender may reasonably request; and without any request, shall furnish to the Administrative Agent for distribution by the Administrative Agent to the Lenders:

(a) as soon as available, and in any event within 45 days after the close of each fiscal quarter of each fiscal year of the Borrower, a copy of the consolidated and consolidating balance sheet of the Borrower and the Subsidiaries as of the last day of such fiscal quarter and the consolidated and consolidating statements of income, retained earnings, and cash flows of the Borrower and the Subsidiaries for the fiscal quarter and for the fiscal year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous fiscal year, prepared by the Borrower in accordance with GAAP (subject to (i) the absence of footnote disclosures and (ii) year-end audit adjustments) and certified to by its chief financial officer or another officer of the Borrower acceptable to the Administrative Agent;

(b) as soon as available, and in any event within 90 days after the close of each fiscal year of the Borrower, a copy of the consolidated and consolidating balance sheet of the Borrower and the Subsidiaries as of the last day of the fiscal year then ended and the consolidated and consolidating statements of income, retained earnings, and cash flows of the Borrower and the Subsidiaries for the fiscal year then ended, and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied in the case of the consolidated financial statements by an unqualified opinion of Deloitte & Touche LLP or another firm of independent public accountants of recognized standing, selected by the Borrower and reasonably satisfactory to the Administrative Agent and the Required Lenders, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Borrower and the Subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(c) within the period provided in subsection (b) above, the written statement of the accountants who certified the audit report thereby required that in the course of their audit they have obtained no knowledge of any Default or Event of Default, or, if such accountants have obtained knowledge of any such Default or Event of Default, they shall disclose in such statement the nature and period of the existence thereof;

(d) promptly after receipt thereof, any additional written reports, management letters or other detailed information contained in writing concerning significant aspects of the Borrower's or any Subsidiary's operations and financial affairs given to it by its independent public accountants;

(e) promptly after the sending or filing thereof, copies of each financial statement, report, notice or proxy statement sent by the Borrower or any Subsidiary to its stockholders or other equity holders, and copies of each regular, periodic or special report, registration statement or prospectus (including all Form 10-K, Form 10-Q and Form 8-K reports) filed by the Borrower or any Subsidiary with any securities exchange or the Securities and Exchange Commission or any successor agency;

(f) within five (5) Business Days of submission to the DOE, a copy of all compliance audits and audited financial statements submitted to the DOE pursuant to 34 C.F.R. Section 668.23;

(g) within five (5) Business Days of submission to any Accrediting Body, a copy of each annual report submitted to such Accrediting Body;

(h) promptly after receipt thereof, a copy of each audit made by any regulatory agency of the books and records of the Borrower or any Subsidiary or of notice of any material noncompliance with any applicable law, regulation or guideline relating to the Borrower or any Subsidiary, or its business;

(i) as soon as available, and in any event within 30 days after the end of each fiscal year of the Borrower, a copy of the Borrower's consolidated and consolidating business plan for the following fiscal year, such business plan to show the Borrower's projected consolidated and consolidating revenues, expenses and balance sheet on a month-by-month basis, such business plan to be in reasonable detail prepared by the Borrower and in form satisfactory to the Administrative Agent (which shall include a summary of all assumptions made in preparing such business plan);

(j) promptly, but in any event within 5 Business Days of the occurrence thereof, notice of any Change in Control;

(k) promptly, but in any event within 5 Business Days after knowledge thereof shall have come to the attention of the Chief Executive Officer, President, Chief Financial Officer, Corporate Counsel or Vice President of Compliance and Review of the Borrower or any Subsidiary, written notice of (i) any threatened or pending litigation, governmental proceeding, inquiry or investigation or labor controversy against the Borrower or any Subsidiary which could reasonably be expected to have a Material Adverse Effect, (ii) the occurrence of any Default or Event of Default hereunder, (iii) any pending or threatened loss of any Accreditation or state license other than those which could not reasonably be expected to have a Material Adverse Effect, (iv) any change in any of the information provided in the eligibility application, to the extent required under 34 C.F.R. Section 600.30, of the Borrower or any Subsidiary or any School, (v) any change to occur in state or federal laws, rules or governmental regulations or budgetary allocations or educational loan policies which could reasonably be expected to have a Material Adverse Effect, (vi) any pending or threatened investigation, inquiry or proceeding against any School by the DOE, any state governmental agency or Accrediting Body which is reasonably likely to have a Material Adverse Effect, or (vii) the imposition by the DOE of a requirement that the Borrower, any Subsidiary or any School post or procure or obtain the issuance of a Title IV Letter of Credit in order to establish the continued eligibility of the Borrower, any Subsidiary or any School to participate in Title IV Programs; and

(l) with each of the financial statements furnished to the Lenders pursuant to subsections (a) and (b) above, a written compliance certificate in the form attached hereto as Exhibit E signed by the Chief Financial Officer of the Borrower or another officer of the Borrower acceptable to the Administrative Agent to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Borrower or any Subsidiary to remedy the same. Each compliance certificate furnished pursuant to subsections (a) and (b) above shall also set forth the calculations supporting such statements in respect of Section 8.22 hereof and (but only at such intervals as such information is required to be furnished to the DOE) those financial ratios required by the DOE with respect to the Borrower and its Subsidiaries on a consolidated basis (or on any other basis then required to be reported to the DOE), including primary reserve, equity, net income and, with respect to each School, 90/10 ratios.

Section 8.6. *Inspection*. Subject to the terms of Section 13.23 hereof, the Borrower shall, and shall cause each Subsidiary to, permit the Administrative Agent, each Lender, and each of their duly authorized representatives and agents to visit and inspect any of its Property, corporate books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers, employees and independent public accountants (and by this provision the Borrower hereby authorizes such accountants to discuss with the Administrative Agent and such Lenders the finances and affairs of the Borrower and the Subsidiaries) at such reasonable times and intervals as the Administrative Agent or any such Lender may designate and, so long as no Default or Event of Default exists, with reasonable prior notice to the Borrower.

Section 8.7. *Borrowings and Guaranties.* The Borrower shall not, nor shall it permit any Subsidiary to, issue, incur, assume, create or have outstanding any Indebtedness for Borrowed Money, or be or become liable as endorser, guarantor, surety or otherwise for any Indebtedness for Borrowed Money or any performance undertaking of any other Person (other than the Borrower or any Subsidiary or any School), or otherwise agree to provide funds for payment of the Indebtedness for Borrowed Money of any other Person, or otherwise assure a creditor of any other Person (other than the Borrower or any Subsidiary or any School) against loss; *provided, however,* that the foregoing shall not restrict nor operate to prevent:

(a) the Obligations, Hedging Liability and Funds Transfer and Deposit Account Liability of the Borrower and the Subsidiaries owing to the Administrative Agent and the Lenders (and their Affiliates), and obligations of the type included within the definition of "Funds Transfer and Deposit Account Liability" owed to other Persons;

(b) Purchase Money Indebtedness and Capitalized Lease Obligations of the Borrower and the Subsidiaries in an amount not to exceed $10,000,000 in the aggregate at any one time outstanding;

(c) obligations of the Borrower arising out of interest rate and foreign currency hedging agreements entered into with financial institutions in the ordinary course of business;

(d) endorsement of items for deposit or collection received in the ordinary course of business;

(e) indebtedness from time to time owing by the Borrower to any Subsidiary or by any Subsidiary to the Borrower or by any Subsidiary to any other Subsidiary;

(f) liabilities not to exceed $10,000,000 relating to the Financing Obligation;

(g) indebtedness in a principal amount not to exceed $815,000, as reduced by payments of principal thereon, owing to Bank Midwest, NA, as assignee of Lyons Savings and Loan Association, and secured by a Lien on the property in Nashville, Tennessee subject to the Mortgage; and

(h) unsecured indebtedness of the Borrower and the Subsidiaries not otherwise permitted by this Section in an amount not to exceed $5,000,000 in the aggregate at any one time outstanding.

Section 8.8. *Liens.* The Borrower shall not, nor shall it permit any Subsidiary to, create, incur or permit to exist any Lien of any kind on any Property owned by any such Person; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), deposits in connection with tenders, contracts or leases to which the Borrower or any Subsidiary is a party or other deposits required to be made in the ordinary course of business, provided in each case that the obligation is not Indebtedness for Borrowed Money and that the obligation secured is not overdue for a period of more than 30 days or, if overdue for a period of more than 30 days, is being contested in good faith by appropriate proceedings which prevent enforcement of such Lien and adequate reserves have been established therefor;

(b) mechanics', workmen's, materialmen's, landlords', carriers' or other similar Liens arising in the ordinary course of business with respect to obligations which are not overdue for a period of more than 30 days or which are being contested in good faith by appropriate proceedings which prevent enforcement of such Lien;

(c) judgment liens and judicial attachment liens not constituting an Event of Default under Section 9.1(g) hereof and the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, provided that the aggregate amount of such judgment liens and attachments and liabilities of the Borrower and the Subsidiaries secured by a pledge of assets permitted under this subsection, including interest and penalties thereon, if any, shall not be in excess of $1,000,000 at any one time outstanding;

(d) Liens on property of the Borrower or any Subsidiary created solely for the purpose of securing Purchase Money Indebtedness permitted by Section 8.7(b) hereof, provided that no such Lien shall extend to or cover other Property of the Borrower or such Subsidiary other than the respective Property so acquired, constructed or improved, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the purchase price or the cost of such construction or improvement, as the case may be, of such Property, as reduced by repayments of principal thereon;

(e) Liens on Property of the Borrower or any Subsidiary arising in connection with Capital Leases permitted under Section 8.7(b);

(f) any interest or title of a lessor under any operating lease;

(g) easements, rights-of-way, restrictions, and other similar encumbrances against real property of the Borrower and the Subsidiaries incurred in the ordinary course of business which do not materially detract from the value of the Property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any Subsidiary;

(h) the Liens granted in favor of the Administrative Agent pursuant to the Collateral Documents; and

(i) Liens existing on the Closing Date and listed on Schedule 8.8 hereto.

Section 8.9. *Investments, Acquisitions, Loans and Advances*. The Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances to, any other Person (other than accounts receivable owed from students or former students of the Schools for tuition or fee payments), or acquire all or any substantial part of the assets or business of any other Person or division thereof; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) investments in direct obligations of the United States of America or of any agency or instrumentality thereof or obligations unconditionally guaranteed by the United States of America or any agency or instrumentality thereof which, in each case, constitute full faith and credit obligations of the United States of America, provided that any such obligations shall mature within one year of the date of issuance thereof;

(b) investments in commercial paper rated at least P-1 (or the then-equivalent grade) by Moody's and at least A-1 (or the then-equivalent grade) by S&P maturing within one year of the date of issuance thereof;

(c) investments in certificates of deposit issued by any Lender or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having capital and surplus of not less than $100,000,000 which have a maturity of one year or less;

(d) investments in repurchase obligations with a term of not more than 7 days for underlying securities of the types described in subsection (a) above entered into with any bank meeting the qualifications specified in subsection (c) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System;

(e) investments in money market funds that invest solely, and which are restricted by their respective charters to invest solely, in investments of the type described in the immediately preceding subsections (a), (b), (c), and (d) above;

(f) the Borrower's investments from time to time in the Subsidiaries, and investments made from time to time by a Subsidiary in one or more of the Subsidiaries or in the Borrower; *provided* that any subsequent investment by the Borrower or any Subsidiary in a Person which was the Acquired Business in a Permitted Acquisition in which the Borrower and the Subsidiaries collectively owned less than 100% of the Voting Stock of such Acquired Business after giving effect to such Permitted Acquisition and which investment results in the Borrower or such Subsidiary increasing its ownership percentage of the Voting Stock of such entity shall be deemed to use a part of the permitted Total Consideration for all Permitted Acquisitions as set forth in clause (e) of the definition of *"Permitted Acquisition";*

(g) intercompany advances made from time to time between the Borrower or any Subsidiary and any one or more Subsidiaries in the ordinary course of business to finance working capital needs;

(h) Permitted Acquisitions;

(i) short-term loans and advances to employees for travel and other purposes in the ordinary course of business in an aggregate amount not to exceed $50,000 at any one time outstanding; and

(j) other investments, loans, and advances in addition to those otherwise permitted by this Section in an amount not to exceed $1,500,000 in the aggregate at any one time outstanding.

In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions (other than loans and advances) shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

Section 8.10. Mergers, Consolidations and Sales. The Borrower shall not, nor shall it permit any Subsidiary to, be a party to any merger or consolidation, or sell, transfer, lease or otherwise dispose of all or any part of its Property, including any disposition of Property as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or accounts receivable; *provided, however,* that this Section shall not apply to nor operate to prevent:

(a) the sale or lease of inventory in the ordinary course of business;

(b) the sale, transfer, lease or other disposition of Property of the Borrower and the Subsidiaries to one another; *provided* that no sale, lease or other disposition of property to ComTech Services Group, Inc. shall be permitted hereunder;

(c) the merger of any Subsidiary with and into the Borrower or any other Subsidiary, or the consolidation of any Subsidiary with any other Subsidiary, or any merger or consolidation pursuant to or as part of a Permitted Acquisition provided that, in the case of any merger involving the Borrower, the Borrower is the corporation surviving the merger, and in the case of any merger or consolidation involving both a Wholly-owned Subsidiary and a Subsidiary other than a Wholly-owned Subsidiary, the surviving entity is a Wholly-owned Subsidiary;

(d) so long as no Default or Event of Default has occurred and is continuing or would arise as a result thereof, the sale of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection only (and not for the purpose of any bulk sale or securitization transaction);

(e) so long as no Default or Event of Default has occurred and is continuing or would arise as a result thereof, the sale, transfer or other disposition of any tangible personal property that, in the reasonable business judgment of the Borrower or the relevant Subsidiary, has become obsolete or worn out, and which is disposed of in the ordinary course of business;

(f) so long as no Default or Event of Default has occurred and is continuing or would arise as a result thereof, the sale to a third party unaffiliated with the Borrower and its Subsidiaries of any or all Property comprising the Indianapolis campus; and

(g) so long as no Default or Event of Default has occurred and is continuing or would arise as a result thereof, the sale, transfer, lease or other disposition of Property of the Borrower or any Subsidiary (including any disposition of Property as part of a sale and leaseback transaction) aggregating Net Cash Proceeds for the Borrower and its Subsidiaries not more than $1,500,000 during any fiscal year of the Borrower.

Upon the written request of the Borrower, the Administrative Agent shall release its Lien on any Property sold pursuant to the foregoing provisions.

Section 8.11. Maintenance of Subsidiaries. The Borrower shall not assign, sell or transfer, nor shall it permit any Subsidiary to issue, assign, sell or transfer, any shares of capital stock or other equity interests of a Subsidiary other than to the Borrower or a Wholly-owned Subsidiary, *provided* that following any such issuance, assignment, sale or transfer, such shares of stock or other equity interests shall be or remain, as the case may be, subject to the Lien of the Administrative Agent; *provided, however,* that the foregoing shall not operate to prevent (a) Liens on the capital stock or other equity interests of the Subsidiaries granted to the Administrative Agent pursuant to the Collateral Documents, (b) the issuance, sale, and transfer to any person of any shares of capital stock of a Subsidiary solely for the purpose of qualifying, and to the extent legally necessary to qualify, such person as a director of such Subsidiary, and (c) any transaction permitted by Section 8.10(c) above. The Borrower has no Subsidiaries on the Closing Date other than those listed on Schedule 6.2 hereto.

Section 8.12. Dividends and Certain Other Restricted Payments . The Borrower shall not, nor shall it permit any Subsidiary to, (a) declare or pay any dividends on or make any other distributions in respect of any class or series of its capital stock or other equity interests, (b) directly or indirectly purchase, redeem, or otherwise acquire or retire any of its capital stock or other equity interests or any warrants, options, or similar instruments to acquire the same, or (c) directly or indirectly pay any management, consulting or similar fees to any of its Affiliates (all of the foregoing, collectively, the *"Restricted Payments"*); *provided, however,* that the foregoing shall not operate to prevent (v) the declaration, payment or making of dividends or distributions payable solely in common stock or other common equity interests which do not by their terms, entitle the holder to receive guaranteed cash dividends or distributions, (w) the payment of any management, consulting or similar fees to the Borrower or any Wholly-owned

Subsidiary of the Borrower, (x) the declaration, payment or making of dividends or distributions by any Subsidiary of the Borrower to the Borrower or a Wholly-owned Subsidiary of the Borrower, (y) the payment by the Borrower, at any time when no Default or Event of Default exists or would be caused thereby, of Permitted Management Fees, or (z) the payment by any Subsidiary to the Borrower of dividends or distributions in an amount sufficient to enable the Borrower to timely pay when due United States federal, state and local income tax liabilities in respect of income earned by the Borrower and the Subsidiaries; *provided,* that the proceeds of such dividends or distributions are in fact used to pay such tax liabilities.

Section 8.13. *ERISA.* The Borrower shall, and shall cause each Subsidiary to, promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed could reasonably be expected to result in the imposition of a Lien or Liens securing liabilities in an amount in excess of $1,000,000 (in the aggregate for all such Liens) against any of its Property, other than Liens permitted under Section 8.8 hereof. The Borrower shall, and shall cause each Subsidiary to, promptly notify the Administrative Agent of: (a) the occurrence of any reportable event (as defined in ERISA) with respect to a Plan, other than any reportable event with respect to which the 30-day notice requirement has been waived by the PBGC, (b) receipt of any notice from the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (c) its intention to terminate or withdraw from any Plan, and (d) the occurrence of any event with respect to any Plan or Multiemployer Plan which would result in the incurrence by the Borrower or any Subsidiary of any material liability, fine or penalty, or any material increase in the contingent liability of the Borrower or any Subsidiary with respect to any post-retirement Welfare Plan benefit; *provided* that the Borrower shall only be required to notify the Administrative Agent of any of the matters described in any of the foregoing clauses to the extent that any of such matters could reasonably be expected to result in the Borrower or any of the Subsidiaries incurring liabilities, fines, penalties or expenses in excess of $1,000,000 for all of such Persons collectively.

Section 8.14. *Compliance with Laws.* (a) The Borrower shall, and shall cause each Subsidiary to, comply in all respects with the requirements of all federal, state, and local laws, rules, regulations, ordinances and orders applicable to its Property or business operations, where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or result in a Lien upon any of its Property other than a Lien permitted under Section 8.8 hereof. Without limiting the generality of the foregoing and notwithstanding any limitations contained therein, the Borrower and each Subsidiary shall and shall cause each School (to the extent that it is subject thereto) to comply with the Truth-in-Lending Act, 15 U.S.C. § 1601 et seq., all regulations promulgated thereunder, and all other consumer credit laws applicable to the Borrower, each Subsidiary and each School in connection with the advancing of student loans, except for such laws and regulations the violation of which, in the aggregate (i) could not reasonably be expected to result in the assessment of penalties and damages and claims against the Borrower, any Subsidiary or any School which are in excess of 5% of the Borrower's Consolidated Total Assets, and (ii) (even if in a lesser amount) could not reasonably be expected to have a Material Adverse Effect. The Borrower shall (a) ensure and cause each Subsidiary to ensure that no Person that owns a controlling interest in or otherwise controls the Borrower or any of its Subsidiaries is or shall be listed in any of the listings described in Section 6.21(b), and (b) not use or permit the use of the proceeds of the Loans to violate any of the foreign asset control regulations of OFAC or any enabling statute or order relating thereto or the Executive Order.

(b) Without limiting the agreements set forth in Section 8.14(a) above, the Borrower shall, and shall cause each Subsidiary to, at all times, do the following to the extent the failure to do so, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect: (i) comply in all material respects with, and maintain or cause to be maintained each of the Premises in compliance in all material respects with, all applicable Environmental Laws; (ii) require that each tenant and subtenant, if any, of any of the Premises or any part thereof comply in all material respects with all Environmental Laws applicable to such Premises; (iii) obtain and maintain in full force and effect all material governmental approvals required by any applicable Environmental Law for operations at each of the Premises; (iv) cure any material violation by it or at any of the Premises of applicable Environmental Laws; (v) not allow the presence or operation at any of the Premises of any (1) landfill or dump or (2) "hazardous waste management facility" or "solid waste disposal facility" as defined pursuant to RCRA or any analogous state law; (vi) not manufacture, use, generate, transport, treat, store, release, dispose or handle any Hazardous Material at any of the Premises except in the ordinary course of its business and in compliance with applicable Environmental Laws; (vii) within 15 Business Days notify the Administrative Agent in writing of and provide any reasonably requested documents upon learning of any of the following in connection with the Borrower or any Subsidiary or any of the Premises: (1) that it has any material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any analogous state law; (2) any material Environmental Claim; (3) any material violation of an Environmental Law or material Release or material threatened Release of a Hazardous Material; (4) any restriction on the ownership, occupancy, use or transferability arising pursuant to any (x) Release or material threatened Release of a Hazardous Material or (y) Environmental Law; or (5) any environmental, natural resource, health or safety condition, which could reasonably be expected to have a Material Adverse Effect; (viii) conduct at its expense any investigation, study, sampling, testing, abatement, cleanup, removal, remediation or other response action necessary to remove, remediate, clean up or abate any material Release or material threatened Release of a Hazardous Material as required by any applicable Environmental Law; (ix) abide by and observe any restrictions on the use of the Premises imposed by any governmental authority as set forth in a deed or other instrument affecting the Borrower's or any Subsidiary's interest therein; (x) promptly provide or otherwise make available to the Administrative Agent any reasonably requested environmental record concerning the Premises which the Borrower or any Subsidiary possesses or can reasonably obtain; and (xi) perform, satisfy, and implement any operation or maintenance actions required of it by any governmental authority under any Environmental Law, or included in any no further action letter or covenant not to sue, in each case to which the Borrower or a Subsidiary is a party or addressee, issued by any governmental authority under any Environmental Law.

Section 8.15. Burdensome Contracts With Affiliates. The Borrower shall not, nor shall it permit any Subsidiary to, enter into any contract, agreement or business arrangement with any of its Affiliates (other than with Wholly-owned Subsidiaries) on terms and conditions which are less favorable to the Borrower or such Subsidiary than would be usual and customary in similar

contracts, agreements or business arrangements with a Person not an Affiliate, except as described in Section 6.14 hereof.

Section 8.16. No Changes in Fiscal Year. The fiscal year of the Borrower and the Subsidiaries ends on December 31 of each year; and the Borrower shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis.

Section 8.17. Formation of Subsidiaries and Schools. Promptly upon the formation or acquisition of any Subsidiary, the Borrower shall provide the Administrative Agent notice thereof and timely comply with the requirements of Section 4 hereof (at which time Schedule 6.2 shall be deemed amended to include reference to such Subsidiary). Promptly upon the formation of any School, the Borrower shall supply to the Administrative Agent an updated Schedule 6.2 including the information with respect to such School required on such Schedule. The Borrower shall not permit the total assets of its direct and indirect Foreign Subsidiaries (if any) to exceed 15% of Consolidated Total Assets at any time.

Section 8.18. Change in the Nature of Business. The Borrower shall not, nor shall it permit any Subsidiary to, engage in any business or activity if as a result the Borrower or such Subsidiary, respectively, would not be engaged in an Eligible Line of Business.

Section 8.19. Use of Loan Proceeds. The Borrower shall, and shall require the Subsidiaries to, use the credit extended under this Agreement solely for the purposes set forth in, or otherwise permitted by, Section 6.4 hereof.

Section 8.20. No Restrictions. Except as permitted or provided herein, the Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of the Borrower or any Subsidiary to: (a) pay dividends or make any other distribution on the Borrower's or any Subsidiary's capital stock or other equity interests owned by the Borrower or any Subsidiary, (b) pay any indebtedness owed to the Borrower or any Subsidiary, (c) make loans or advances to the Borrower or any Subsidiary, (d) transfer any of its Property to the Borrower or any Subsidiary or (e) guarantee the Obligations and/or grant Liens on its assets to the Administrative Agent as required by the Loan Documents.

Section 8.21. [Intentionally Omitted].

Section 8.22. Financial Covenants. (a) *Total Funded Debt/Adjusted EBITDA Ratio.* As of the last day of each fiscal quarter of the Borrower ending during the periods specified below, the Borrower shall not permit the Total Funded Debt/Adjusted EBITDA Ratio to be greater than:

FROM AND INCLUDING	TO AND INCLUDING	RATIO SHALL NOT BE GREATER THAN
the Closing Date	December 31, 2005	2.50 to 1.0
January 1, 2006	December 31, 2006	2.25 to 1.0
January 1, 2007	At all times thereafter	2.00 to 1.0

(b) *Minimum Net Worth.* The Borrower shall at all times maintain Net Worth in an amount not less than the sum of $43,500,000 plus 50% of the Borrower's Net Income (but without deducting for losses) for each fiscal quarter commencing with the fiscal quarter ending December 31, 2004.

(c) *Fixed Charge Coverage Ratio.* As of the last day of each fiscal quarter of the Borrower ending during the periods specified below, the Borrower shall maintain a ratio of (i) Adjusted EBITDAR for the four fiscal quarters of the Borrower then ended, *less* Capital Expenditures of the Borrower and the Subsidiaries on a consolidated basis for the same four fiscal quarters then ended (*provided* that, solely for the purposes of calculating such ratio, Capital Expenditures of the Borrower and the Subsidiaries on a consolidated basis for each of the four fiscal quarter periods ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005 shall be deemed to be $12,000,000, notwithstanding the actual level of such Capital Expenditures during each of such four fiscal quarter periods), *less* federal, state, and local income taxes paid or payable in cash by the Borrower and its Subsidiaries on a consolidated basis for the same four fiscal quarters then ended to (ii) Fixed Charges of the Borrower and the Subsidiaries for the same four fiscal quarters then ended of not less than:

FROM AND INCLUDING	**TO AND INCLUDING**	**RATIO SHALL NOT BE LESS THAN**
the Closing Date	December 31, 2005	1.20 to 1.0
January 1, 2006	June 30, 2006	1.0 to 1.0
July 1, 2006	September 30, 2006	1.10 to 1.0
October 1, 2006	June 30, 2007	1.25 to 1.0
July 1, 2007	September 30, 2007	1.35 to 1.0
October 1, 2007	At all times thereafter	1.50 to 1.0

(d) *Minimum Financial Responsibility Composite Score* . As of the last day of each fiscal year of the Borrower, the Borrower shall not permit the Financial Responsibility Composite Score to be less than 1.0.

(e) *Cohort Default Rate*. The Borrower shall not, nor shall it permit any Subsidiary or any School to, maintain or permit to exist a Cohort Default Rate exceeding 20% at any time.

(f) *Capital Expenditures*. The Borrower shall not permit actual Capital Expenditures of the Borrower and its Subsidiaries on a consolidated basis to exceed $35,000,000 for any of the four fiscal quarter periods ending March 31, 2005, June 30, 2005, September 30, 2005 or December 31, 2005.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES.

Section 9.1. *Events of Default.* Any one or more of the following shall constitute an *"Event of Default"* hereunder:

(a) (x) default in the payment when due of all or any part of the principal of any Note, (y) default for a period of five Business Days or more in the payment when due of any interest on any Note or (z) default for a period of five Business Days or more in the payment when due of any Reimbursement Obligation or of any fee or other Obligation payable hereunder or under any other Loan Document (whether, in the case of any such default, such due date is the scheduled maturity of such obligation or another time at which such obligation shall become due pursuant to the terms of the Agreement);

(b) default in the observance or performance of any covenant set forth in Sections 8.1 (other than the second sentence thereof), 8.5 (a, b, c, f, g, j, k or l), 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.14(a), 8.16, 8.19, 8.20 or 8.22 hereof or of any provision in any Loan Document dealing with the use, disposition or remittance of the proceeds of Collateral or requiring the maintenance of insurance thereon;

(c) default in the observance or performance of any provision hereof or of any other Loan Document (in each case other than as set forth in clause (a) or (b), above) which is not remedied within 30 days after the earlier of (i) the date on which such default shall first become known to the Chief Executive Officer, President, Chief Financial Officer, Corporate Counsel or Vice President of Compliance and Review of the Borrower or (ii) written notice thereof is given to the Borrower by the Administrative Agent;

(d) any representation or warranty made by the Borrower or any Subsidiary herein or in any other Loan Document or in any certificate furnished to the Administrative Agent or the Lenders pursuant hereto or thereto or in connection with any transaction contemplated hereby or thereby proves untrue in any material respect as of the date of the making or deemed making thereof;

(e) any material provision in any of the Loan Documents shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or any of the Collateral Documents shall for any reason fail to create a valid and perfected first priority Lien in favor of the Administrative Agent in any Collateral purported to be covered thereby except as expressly permitted by the terms thereof or hereof (including, without limitation, Section 8.8 hereof), or except to the extent any such failure is caused by an action or omission of the Administrative Agent, a Lender, or one of their representatives, the Borrower or any Subsidiary takes any action for the purpose of terminating, repudiating or rescinding any Loan Document executed by it or any of its obligations thereunder;

(f) default shall occur under any Indebtedness for Borrowed Money issued, assumed or guaranteed by the Borrower or any Subsidiary that is outstanding at the time of such default in a principal amount aggregating in excess of $1,000,000, or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness for Borrowed Money (whether or not such maturity is in fact accelerated, and including any such acceleration in the form of a mandatory offer to the holders thereof to prepay such Indebtedness for Borrowed Money in full prior to its stated maturity), or any such Indebtedness for Borrowed Money shall not be paid when due (whether by demand, lapse of time, acceleration or otherwise) and any grace period with respect to such payment shall have lapsed;

(g) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against the Borrower or any Subsidiary, or against any of its Property, for the payment of money in an aggregate amount in excess of $1,000,000 (except to the extent covered by insurance pursuant to which the insurer has not denied liability therefor in writing), and which remains undischarged, unvacated, unbonded or unstayed for a period of 30 consecutive days;

(h) the Borrower or any Subsidiary, or any member of its Controlled Group, shall fail to pay when due an amount or amounts aggregating in excess of $1,000,000 (for all of such Persons) which it shall have become liable to pay to the PBGC or to a Plan or Multiemployer Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of $1,000,000 (collectively, a *"Material Plan"*) shall be filed under Title IV of ERISA by the Borrower or any Subsidiary, or any other member of its Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Section 4041(c) of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against the Borrower or any Subsidiary, or any member of its Controlled Group, to enforce Section 515 or 4219(c)(5) of ERISA that is reasonably expected to result in a liability of the Borrower or any of the Subsidiaries in an amount in excess of $1,000,000 for all of such Persons collectively, and such proceeding shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated;

(i) any Change of Control shall occur;

(j) the Borrower or any Subsidiary shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make a general assignment for the benefit of creditors, (iv) apply for, seek, consent to or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 9.1(k) hereof;

(k) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any Subsidiary, or any substantial part of any of its Property, or a proceeding described in Section 9.1(j)(v) shall be instituted against the Borrower or any Subsidiary, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 days;

(l) the DOE shall have, pursuant to Subpart G of 34 C.F.R., Part 668, regarding the eligibility of the Borrower, any Subsidiary or any School to participate in the Title IV Programs, notified the Borrower, any Subsidiary or such School, as the case may be, of any suspension or termination of Title IV Program funding, but only to the extent that such suspension or termination would constitute a Significant Regulatory Event; or

(m) the Borrower shall (x) own any property or assets other than its capital stock or other equity interests in the Subsidiaries or (y) conduct or operate any business other than its ownership of the Subsidiaries.

Section 9.2. *Non-Bankruptcy Defaults.* When any Event of Default other than those described in subsection (j) or (k) of Section 9.1 hereof has occurred and is continuing, the Administrative Agent shall, by written notice to the Borrower: (a) if so directed by the Required Lenders, terminate the remaining Commitments and all other obligations of the Lenders hereunder on the date stated in such notice (which may be the date thereof); (b) if so directed by the Required Lenders, declare the principal of and the accrued interest on all outstanding Notes to be forthwith due and payable and thereupon all outstanding Notes, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Loan Documents without further demand, presentment, protest or notice of any kind; and (c) if so directed by the Required Lenders, demand that the Borrower immediately pay to the Administrative Agent to be held as Collateral for the payment of Reimbursement Obligations then existing or thereafter arising the full amount then available for drawing under each or any Letter of Credit, and the Borrower agrees to immediately make such payment and acknowledges and agrees that the Lenders would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Administrative Agent, for the benefit of the Lenders, shall have the right to require the Borrower to specifically perform such undertaking whether or not any drawings or other demands for payment have been made under any Letter of Credit. The Administrative Agent, after giving notice to the Borrower pursuant to Section 9.1(c) or this Section 9.2, shall also promptly send a copy of such notice to the other Lenders, but the failure to do so shall not impair or annul the effect of such notice.

Section 9.3. *Bankruptcy Defaults*. When any Event of Default described in subsections (j) or (k) of Section 9.1 hereof has occurred and is continuing, then all outstanding Notes shall immediately become due and payable together with all other amounts payable under the Loan Documents without presentment, demand, protest or notice of any kind, the obligation of the Lenders to extend further credit pursuant to any of the terms hereof shall immediately terminate (except that the L/C Issuer's obligation to honor presentments, drawings and other demands for payment under outstanding Letters of Credit shall not be affected) and the Borrower shall immediately pay to the Administrative Agent to be held as Collateral for the payment of Reimbursement Obligations then existing or thereafter arising the full amount then available for drawing under all outstanding Letters of Credit, the Borrower acknowledging and agreeing that the Lenders would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Lenders, and the Administrative Agent on their behalf, shall have the right to require the Borrower to specifically perform such undertaking whether or not any draws or other demands for payment have been made under any of the Letters of Credit.

Section 9.4. *Collateral for Undrawn Letters of Credit*. (a) If the prepayment of the amount available for drawing under any or all outstanding Letters of Credit is required under Section 9.2 or 9.3 above, the Borrower shall forthwith pay the amount required to be so prepaid, to be held by the Administrative Agent as provided in subsection (b) below.

(b) All amounts prepaid pursuant to subsection (a) above shall be held by the Administrative Agent in one or more separate collateral accounts (each such account, and the credit balances, properties, and any investments from time to time held therein, and any substitutions for such account, any certificate of deposit or other instrument evidencing any of the foregoing and all proceeds of and earnings on any of the foregoing being collectively called the *"Collateral Account"*) as security for, and for application by the Administrative Agent (to the extent available) to, the reimbursement of any payment under any Letter of Credit then or thereafter made by the Administrative Agent, and to the payment of the unpaid balance of any other Obligations. The Collateral Account shall be held in the name of and subject to the exclusive dominion and control of the Administrative Agent for the benefit of the Administrative Agent, the Lenders, and the L/C Issuer. If and when requested by the Borrower, the Administrative Agent shall invest funds held in the Collateral Account from time to time in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America with a remaining maturity of one year or less, provided that the Administrative Agent is irrevocably authorized to sell investments held in the Collateral Account when and as required to make payments out of the Collateral Account for application to amounts due and owing from the Borrower to the L/C Issuer, the Administrative Agent or the Lenders; *provided, however,* that if (i) all relevant preference or other disgorgement periods relating to the receipt of such payments have passed, and (ii) no Letters of Credit, Commitments, Loans or other Obligations remain outstanding hereunder, then the Administrative Agent shall release to the Borrower any remaining amounts, credit balances, properties and investments held in the Collateral Account.

Section 9.5. *Notice of Default*. The Administrative Agent shall give notice to the Borrower under Section 9.1(c) hereof promptly upon being requested to do so by the Required Lenders and shall thereupon notify all the Lenders thereof.

Section 9.6. *Expenses*. The Borrower agrees to pay to the Administrative Agent and each Lender all costs and expenses reasonably incurred or paid by the Administrative Agent and such Lender, including reasonable attorneys' fees and court costs, in connection with any Default or Event of Default by the Borrower hereunder or in connection with the enforcement of any of the Loan Documents (including all such costs and expenses incurred in connection with any proceeding under the United States Bankruptcy Code involving the Borrower or any Subsidiary as a debtor thereunder).

SECTION 10. CHANGE IN CIRCUMSTANCES.

Section 10.1. *Change of Law*. Notwithstanding any other provisions of this Agreement or any Note, if at any time after the date hereof any change in applicable law or regulation or in the interpretation thereof makes it unlawful for any Lender to make or continue to maintain any Eurodollar Loans or to perform its obligations as contemplated hereby, such Lender shall promptly give notice thereof to the Borrower and such Lender's obligations to make or maintain Eurodollar Loans under this Agreement shall be suspended until it is no longer unlawful for such Lender to make or maintain Eurodollar Loans. The Borrower shall prepay on demand the outstanding principal amount of any such affected Eurodollar Loans, together with all interest accrued thereon and all other amounts then due and payable to such Lender under this Agreement; *provided, however,* that as long as no Event of Default exists at such time, even if one or more conditions precedent to a Credit Event other than absence of an Event of Default have not been satisfied at such time, the Borrower may then elect to borrow the principal amount of the affected Eurodollar Loans from such Lender by means of Base Rate Loans from such Lender, which Base Rate Loans shall not be made ratably by the Lenders but only from such affected Lender.

Section 10.2. *Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, LIBOR* . If on or prior to the first day of any Interest Period for any Borrowing of Eurodollar Loans:

(a) the Administrative Agent determines that deposits in U.S. Dollars (in the applicable amounts) are not being offered to it in the interbank eurodollar market or other capital market in which it conventionally funds Eurodollar Loans for such Interest Period, or that by reason of circumstances affecting the interbank eurodollar market (i) the LIBOR Index Rate for such Interest Period cannot be determined and (ii) adequate and reasonable means do not exist for ascertaining the applicable LIBOR, or

(b) the Required Lenders advise the Administrative Agent that (i) either the LIBOR Index Rate for such Interest Period or LIBOR as determined by the Administrative Agent pursuant to clause (b) of the definition of "LIBOR" herein, as applicable, will not adequately and fairly reflect the cost to such Lenders of funding their Eurodollar Loans for such Interest Period or (ii) the making or funding of Eurodollar Loans has become impracticable,

then the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Lenders to make Eurodollar Loans shall be suspended.

Section 10.3. *Increased Cost and Reduced Return*. (a) If, on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency promulgated on or after the date hereof shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurodollar Loans any such requirement included in an applicable Eurodollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Lending Office) or shall impose on any Lender (or its Lending Office) or on the interbank market any other condition affecting its Eurodollar Loans, its Notes, its Letter(s) of Credit, or its participation in any thereof, any Reimbursement Obligation owed to it, or its obligation to make Eurodollar Loans, or to issue a Letter of Credit, or to participate therein; and the result of any of the foregoing is to increase the cost to such Lender (or its Lending Office) of making or maintaining any Eurodollar Loan, issuing or maintaining a Letter of Credit, or participating therein, or to reduce the amount of any sum received or receivable by such Lender (or its Lending Office) under this Agreement or under any other Loan Document with respect thereto (in each case, other than taxes, which shall be governed exclusively by Section 13.1 and any specific provisions of any other Loan Documents), by an amount deemed by such Lender to be material, then, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall be obligated to pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender or the Administrative Agent shall have determined that the adoption after the date hereof of any applicable law, rule or regulation regarding capital adequacy, or any change after the date hereof therein, or any change after the date hereof in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency issued or promulgated after the date hereof, has had the effect of reducing the rate of return on such Lender’s or such corporation’s capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender’s or such corporation’s policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) A certificate of a Lender claiming compensation under this Section 10.3 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive, absent manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

Section 10.4. *Lending Offices*. Each Lender may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof (each a *"Lending Office"*) for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Borrower and the Administrative Agent. To the extent reasonably possible, a Lender shall designate an alternative branch or funding office with respect to its Eurodollar Loans to reduce any liability of the Borrower to such Lender under Sections 10.3 or 13.1 hereof or to avoid the unavailability of Eurodollar Loans under Section 10.2 hereof, so long as such designation is not otherwise disadvantageous to the Lender.

Section 10.5. *Discretion of Lender as to Manner of Funding*. Notwithstanding any other provision of this Agreement, each Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder with respect to Eurodollar Loans shall be made as if each Lender had actually funded and maintained each Eurodollar Loan through the purchase of deposits in the interbank eurodollar market having a maturity corresponding to such Loan's Interest Period, and bearing an interest rate equal to LIBOR for such Interest Period.

SECTION 11. THE ADMINISTRATIVE AGENT.

Section 11.1. *Appointment and Authorization of Administrative Agent*. Each Lender hereby appoints Harris Trust and Savings Bank as the Administrative Agent under the Loan Documents and hereby authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto. The Lenders expressly agree that the Administrative Agent is not acting as a fiduciary of the Lenders in respect of the Loan Documents, the Borrower or otherwise, and nothing herein or in any of the other Loan Documents shall result in any duties or obligations on the Administrative Agent or any of the Lenders except as expressly set forth herein.

Section 11.2. *Administrative Agent and its Affiliates*. The Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any other Lender and may exercise or refrain from exercising such rights and power as though it were not the Administrative Agent, and the Administrative Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Affiliate of the Borrower as if it were not the Administrative Agent under the Loan Documents. The term *"Lender"* as used herein and in all other Loan Documents, unless the context otherwise clearly requires, includes the Administrative Agent in its individual capacity as a Lender. References in Section 1 hereof to the Administrative Agent's Loans, or to the amount owing to the Administrative Agent for which an interest rate is being determined, refer to the Administrative Agent in its individual capacity as a Lender.

Section 11.3. *Action by Administrative Agent*. If the Administrative Agent receives from the Borrower a written notice of an Event of Default pursuant to Section 8.5 hereof, the Administrative Agent shall promptly give each of the Lenders written notice thereof. The obligations of the Administrative Agent under the Loan Documents are only those expressly set forth therein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action hereunder with respect to any Default or Event of Default, except as expressly provided in Sections 9.2, 9.5 and this Section 11.3. Upon the occurrence of an Event of Default, the Administrative Agent shall take such action to enforce its Lien on the Collateral and to preserve and protect the Collateral as may be directed by the Required Lenders. Unless and until the Required Lenders give such direction, the Administrative Agent may (but shall not be obligated to) take or refrain from taking such actions as it deems appropriate and in the best interest of all the Lenders. In no event, however, shall the Administrative Agent be required to take any action in violation of applicable law or of any provision of any Loan Document, and the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder or under any other Loan Document unless it first receives any further assurances of its indemnification from the Lenders that it may require, including prepayment of any related expenses and any other protection it requires against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall be entitled to assume that no Default or Event of Default exists (other than a Default or Event of Default arising under Section 9.1(a) hereof) unless notified in writing to the contrary by a Lender or the Borrower. In all cases in which the Loan Documents do not require the Administrative Agent to take specific action, the Administrative Agent shall be fully justified in using its discretion in failing to take or in taking any action thereunder. Any instructions of the Required Lenders, or of any other group of Lenders called for under the specific provisions of the Loan Documents, shall be binding upon all the Lenders and the holders of the Obligations.

Section 11.4. *Consultation with Experts*. The Administrative Agent may consult with legal counsel, independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 11.5. *Liability of Administrative Agent; Credit Decision*. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection with the Loan Documents: (i) with the consent or at the request of (x) the Required Lenders or, (y) if such action or inaction requires, pursuant to the terms of the Loan Documents, the consent of (1) all of the Lenders or (2) the Required Lenders and certain specific Lenders, all of the Lenders or the Required Lenders and such specific Lenders, as the case may be, or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify: (i) any statement, warranty or representation made in connection with this Agreement, any other Loan Document or any Credit Event; (ii) the performance or observance of any of the covenants or agreements of the Borrower or any Subsidiary contained herein or in any other Loan Document; (iii) the satisfaction of any condition specified in Section 7 hereof, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectibility hereof or of any other Loan Document or of any other documents or writing furnished in connection with any Loan Document or of any Collateral; and the Administrative Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Administrative

Agent may execute any of its duties under any of the Loan Documents by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, the Borrower, or any other Person for the default or misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to be genuine or to be sent by the proper party or parties. In particular and without limiting any of the foregoing, the Administrative Agent shall have no responsibility for confirming the accuracy of any compliance certificate or other document or instrument received by it under the Loan Documents. Each Lender acknowledges that it has independently and without reliance on the Administrative Agent or any other Lender, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Borrower in the manner set forth in the Loan Documents. It shall be the responsibility of each Lender to keep itself informed as to the creditworthiness of the Borrower and the Subsidiaries, and the Administrative Agent shall have no liability to any Lender with respect thereto.

Section 11.6. *Indemnity*. The Lenders shall ratably, in accordance with their respective Revolver Percentages, indemnify and hold the Administrative Agent, and its directors, officers, employees, agents, and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it under any Loan Document or in connection with the transactions contemplated thereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Borrower (without limiting the obligations of the Borrower to do so) and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Lenders under this Section shall survive termination of this Agreement. The Administrative Agent shall be entitled to offset amounts received for the account of a Lender under this Agreement against unpaid amounts due from such Lender to the Administrative Agent hereunder (whether as fundings of participations, indemnities or otherwise), but shall not be entitled to offset against amounts owed to the Administrative Agent by any Lender arising outside of this Agreement and the other Loan Documents.

Section 11.7. *Resignation of Administrative Agent and Successor Administrative Agent*. The Administrative Agent may resign at any time by giving 30 days' prior written notice thereof to the Lenders and the Borrower. Upon any such resignation of the Administrative Agent, the Required Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which may be any Lender hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of its appointment as the Administrative Agent hereunder, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent under the Loan Documents, and the retiring Administrative Agent shall be discharged from its duties and obligations thereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this

Section 11 and all protective provisions of the other Loan Documents shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent, but no successor Administrative Agent shall in any event be liable or responsible for any actions of its predecessor. If the Administrative Agent resigns and no successor is appointed, the rights and obligations of such Administrative Agent shall be automatically assumed by the Required Lenders until such time as a new Administrative Agent is appointed pursuant to the terms hereof, and (i) the Borrower shall be directed to make all payments due each Lender hereunder directly to such Lender and (ii) the Administrative Agent's rights in the Collateral Documents shall be assigned without representation, recourse or warranty to the Lenders as their interests may appear.

Section 11.8. *L/C Issuer.* The Lenders authorize and direct the L/C Issuer to issue Letters of Credit in accordance with the terms of this Agreement. The L/C Issuer shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 11 with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and the Applications pertaining to such Letters of Credit as fully as if the term "Administrative Agent", as used in this Section 11, included the L/C Issuer with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to such L/C Issuer.

Section 11.9. *Hedging Liability and Funds Transfer and Deposit Account Liability Arrangements*. By virtue of a Lender's execution of this Agreement or an assignment agreement pursuant to Section 13.12 hereof, as the case may be, any Affiliate of such Lender with whom the Borrower or any Subsidiary has entered into an agreement creating Hedging Liability or Funds Transfer and Deposit Account Liability shall be deemed a Lender party hereto for purposes of any reference in a Loan Document to the parties for whom the Administrative Agent is acting, it being understood and agreed that the rights and benefits of such Affiliate under the Loan Documents consist exclusively of such Affiliate's right to share in payments and collections out of the Collateral and the Guaranties as more fully set forth in Section 3.1 hereof. In connection with any such distribution of payments and collections, the Administrative Agent shall be entitled to assume no amounts are due to any Lender or its Affiliate with respect to Hedging Liability or Funds Transfer and Deposit Account Liability unless such Lender has notified the Agent in writing of the amount of any such liability owed to it or its Affiliate prior to such distribution.

Section 11.10. *Designation of Additional Agents*. The Administrative Agent shall have the continuing right, for purposes hereof, at any time and from time to time to designate one or more of the Lenders (and/or its or their Affiliates) as "syndication agents," "documentation agents," "arrangers," or other designations for purposes hereto, but such designation shall have no substantive effect, shall not impose any additional fees or costs on the Borrower, and such Lenders and their Affiliates shall have no additional powers, duties or responsibilities as a result thereof.

SECTION 12. THE GUARANTEES.

Section 12.1. The Guarantees. To induce the Lenders to provide the credits described herein and in consideration of benefits expected to accrue to the Borrower by reason of the Commitments and for other good and valuable consideration, receipt of which is hereby acknowledged, each Subsidiary party hereto or executing an Additional Guarantor Supplement (individually a *"Guarantor"* and collectively the *"Guarantors,"* including Subsidiaries formed or acquired after the Closing Date executing an Additional Guarantor Supplement in the form attached hereto as Exhibit F or such other form acceptable to the Administrative Agent) hereby unconditionally and irrevocably guarantee jointly and severally to the Administrative Agent, the Lenders, and their Affiliates, the due and punctual payment of all present and future Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability, including, but not limited to, the due and punctual payment of principal of and interest (including, without limitation, interest accruing after the commencement of a bankruptcy proceeding, whether or not allowed in any such proceeding) on the Notes, the Reimbursement Obligations, and the due and punctual payment of all other Obligations now or hereafter owed by the Borrower under the Loan Documents as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, according to the terms hereof and thereof. In case of failure by the Borrower punctually to pay any Obligations, Hedging Liability, or Funds Transfer and Deposit Account Liability guaranteed hereby, each Guarantor hereby unconditionally agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, and as if such payment were made by the Borrower.

Section 12.2. Guarantee Unconditional. The obligations of each Guarantor under this Section 12 shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged, or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver, or release in respect of any obligation of the Borrower or of any other guarantor under this Agreement or any other Loan Document or by operation of law or otherwise;

(b) any modification or amendment of or supplement to this Agreement or any other Loan Document;

(c) any change in the corporate existence, structure, or ownership of, or any insolvency, bankruptcy, reorganization, or other similar proceeding affecting, the Borrower, any other guarantor, or any of their respective assets, or any resulting release or discharge of any obligation of the Borrower or of any other guarantor contained in any Loan Document;

(d) the existence of any claim, set-off, or other rights which the Borrower or any other guarantor may have at any time against the Administrative Agent, any Lender, or any other Person, whether or not arising in connection herewith;

(e) any failure to assert, or any assertion of, any claim or demand or any exercise of, or failure to exercise, any rights or remedies against the Borrower, any other guarantor, or any other Person or Property;

(f) any application of any sums by whomsoever paid or howsoever realized to any obligation of the Borrower, regardless of what obligations of the Borrower remain unpaid;

(g) any invalidity or unenforceability relating to or against the Borrower or any other guarantor for any reason of this Agreement or of any other Loan Document or any provision of applicable law or regulation purporting to prohibit the payment by the Borrower or any other guarantor of the principal of or interest on any Note or any Reimbursement Obligation or any other amount payable under the Loan Documents; or

(h) any other act or omission to act or delay of any kind by the Administrative Agent, any Lender, or any other Person or any other circumstance whatsoever that might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the obligations of such Guarantor under this Section 12.

Section 12.3. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. Each Guarantor's obligations under this Section 12 shall remain in full force and effect until the Commitments are terminated, all Letters of Credit have expired, and the principal of and interest on the Notes and all other amounts payable by the Borrower and the Guarantors under this Agreement and all other Loan Documents and, if then outstanding and unpaid, all Hedging Liability and Funds Transfer and Deposit Account Liability shall have been paid in full. If at any time any payment of the principal of or interest on any Note or any Reimbursement Obligation or any other amount payable by the Borrower or any Guarantor under the Loan Documents is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of the Borrower or of any other guarantor, or otherwise, each Guarantor's obligations under this Section 12 with respect to such payment shall be reinstated at such time as though such payment had become due but had not been made at such time.

Section 12.4. Subrogation. Each Guarantor agrees it will not exercise any rights which it may acquire by way of subrogation by any payment made hereunder, or otherwise, until all the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability shall have been paid in full subsequent to the termination of all the Commitments and expiration of all Letters of Credit. If any amount shall be paid to a Guarantor on account of such subrogation rights at any time prior to the later of (x) the payment in full of the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability and all other amounts payable by the Borrower hereunder and the other Loan Documents and (y) the termination of the Commitments and expiration of all Letters of Credit, such amount shall be held in trust for the benefit of the Administrative Agent and the Lenders and shall forthwith be paid to the Administrative Agent to be held as Collateral for the benefit of the Lenders or be credited and applied upon the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability, whether matured or unmatured, in accordance with the terms of this Agreement.

Section 12.5. *Waivers.* Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest, and any notice not provided for herein, as well as any requirement that at any time any action be taken by the Administrative Agent, any Lender, or any other Person against the Borrower, another guarantor, or any other Person.

Section 12.6. *Limit on Recovery*. Notwithstanding any other provision hereof, the right of recovery against each Guarantor under this Section 12 shall not exceed $1.00 less than the lowest amount which would render such Guarantor's obligations under this Section 12 void or voidable under applicable law, including, without limitation, fraudulent conveyance law.

Section 12.7. *Stay of Acceleration*. If acceleration of the time for payment of any amount payable by the Borrower under this Agreement or any other Loan Document, or under any agreement establishing Hedging Liability or Funds Transfer and Deposit Account Liability, is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement or the other Loan Documents, or under any agreement establishing Hedging Liability or Funds Transfer and Deposit Account Liability, shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Administrative Agent made at the request of the Required Lenders.

Section 12.8. *Benefit to Guarantors*. All of the Guarantors are engaged in related businesses and integrated to such an extent that the financial strength and flexibility of each Guarantor has a direct impact on the success of each other Guarantor. Each Guarantor will derive substantial direct and indirect benefit from the extension of credit hereunder.

Section 12.9. *Guarantor Covenants.* Each Guarantor shall take such action as the Borrower is required by this Agreement to cause such Guarantor to take, and shall refrain from taking such action as the Borrower is required by this Agreement to prohibit such Guarantor from taking.

SECTION 13. MISCELLANEOUS.

Section 13.1. *Withholding Taxes.* (a) *Payments Free of Withholding*. Except as otherwise required by law and subject to Section 13.1(b) hereof, each payment by the Borrower under this Agreement or the other Loan Documents shall be made without withholding for or on account of any present or future taxes (other than (i) taxes imposed on, or measured by, the recipient's overall net income or overall gross income imposed by the jurisdiction in which such recipient's principal executive office or Lending Office is located, (ii) branch profit taxes, franchise taxes or similar taxes imposed on the recipient, and (iii) any taxes that would not have been imposed but for the activities of the recipient in the jurisdiction imposing such tax other than the execution, delivery of, or otherwise or a result of the recipient's participation in the transactions contemplated by this Agreement or the other Loan Documents) imposed by or within the jurisdiction in which the Borrower is domiciled, any jurisdiction from which the Borrower makes any payment, or (in each case) any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, *"Taxes"*). If any withholding for Taxes is so required, the Borrower shall make the withholding, pay the amount withheld to the appropriate governmental authority before penalties attach thereto or interest accrues thereon and forthwith pay such additional amount as may be necessary to ensure that the net amount actually received by each Lender and the Administrative Agent free and clear of such Taxes (including such Taxes on such additional amount) is equal to the amount which that Lender or the Administrative Agent (as the case may be) would have received had such withholding not been made. If the Administrative Agent or any Lender pays any amount in respect of any such Taxes, including penalties or interest thereon, the Borrower shall reimburse the Administrative Agent or such Lender for that payment following written demand therefor (which demand shall set forth the details relating to the Taxes for which reimbursement is sought with reasonable specificity), in the currency in which such payment was made. If the Borrower pays any Taxes, including penalties or interest thereon, it shall deliver official tax receipts, certified copies thereof or evidence of such payment reasonably satisfactory to the Lender or Administrative Agent evidencing that payment, to the Lender or Administrative Agent on whose account such withholding was made (with a copy to the Administrative Agent if not the recipient of the original) on or before the thirtieth day after payment.

(b) *U.S. Withholding Tax Exemptions.* Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Borrower and the Administrative Agent on or before the date the initial Credit Event is made hereunder or, if later, the date such financial institution becomes a Lender hereunder, two duly completed and signed copies of (i) either Form W-8 BEN or Form W-8 ECI (certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on all amounts to be received by such Lender, including fees, pursuant to the Loan Documents and the Obligations) of the United States Internal Revenue Service or (ii) solely if such Lender is claiming exemption from United States withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest”, a Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, and a certificate representing that such Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code). If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender provides the appropriate form certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for the period governed by such form. Thereafter and from time to time, each Lender shall submit to the Borrower and the Administrative Agent such additional duly completed and signed copies of one or the other of such Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) and such other certificates as may be (i) requested by the Borrower in a written notice, directly or through the Administrative Agent, to such Lender and (ii) required under then-current United States law or regulations to avoid or reduce United States withholding taxes on payments in respect of all amounts to be received by such Lender, including fees, pursuant to the Loan Documents or the Obligations. Upon the request of the Borrower or the Administrative Agent, each Lender that is a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Borrower and the Administrative Agent a duly completed IRS Form W-9 or such other form or certificate as may establish a withholding tax exemption. For any period with respect to which a Lender or the Administrative Agent has failed to provide the Borrower with the appropriate form described in this subsection (b) (other than to the extent that such failure, in accordance with subsection (c) below, is due to a change in law occurring after the date on which a form originally was required to be provided), such Lender or the Administrative Agent shall not be entitled to the additional amounts or indemnities with respect to Taxes withheld under subsection (a) of this Section 13.1 by reason of such failure.

(c) *Inability of Lender to Submit Forms*. If any Lender determines, as a result of any change after the date hereof in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to the Borrower or the Administrative Agent any form or certificate that such Lender is obligated to submit pursuant to subsection (b) of this Section 13.1 or that such Lender is required to withdraw or cancel any such form or certificate previously submitted or any such form or certificate otherwise becomes ineffective or inaccurate, such Lender shall promptly notify the Borrower and Administrative Agent of such fact and the Lender shall to that extent not be obligated to provide any such form or certificate and will be entitled to withdraw or cancel any affected form or certificate, as applicable; *provided, however,* the Lender shall provide any form of certification that it is lawfully able to so provide as a basis for an exemption from or reduced rate of withholding.

(d) *Application of Credits.* If the Borrower is required to pay any amounts pursuant to the provisions of this Section 13.1, and if thereafter any Lender or the Administrative Agent (as the case may be) shall receive or be granted a credit against or remission or other relief for Taxes payable by the Lender or Administrative Agent (as the case may be) in respect of the amounts so paid by the Borrower, the Lender or Administrative Agent (as the case may be) shall to the extent that it can do so without prejudice to the retention of the amount of such credit, remission or other relief, pay to the Borrower 60 days after the date on which the Lender or Administrative Agent effectively obtains the benefit of such credit, remission or other relief an amount which it reasonably determines to be equal to such credit, remission or other relief less any sum which it is required by law to deduct therefrom. Such Lender or the Administrative Agent (as the case may be) may, in its reasonable discretion, determine the order of utilization of all charges, deductions, credits and expenses which reduce Taxes imposed on its net income. Nothing in this Section 13.1(d) shall be construed as requiring the Lender or Administrative Agent (as the case may be) to conduct its business or to arrange or alter in any respect its tax or financial affairs so that it is entitled to receive such credit, remission or other relief, other than performing any ministerial acts necessary to be entitled to receive such credit, remission or other relief.

(e) *Assessments, Contests, Etc.* In the event that any Lender or the Administrative Agent receives written communication from any tax authority with respect to an assessment or proposed assessment of any Taxes, such Lender or the Administrative Agent (as the case may be) shall promptly notify Borrower in writing and provide a copy of such communication to Borrower. In the event that an administrative or judicial proceeding is commenced involving any Lender or the Administrative Agent which, if determined adversely to it, would result in the payment of Taxes, such Lender or the Administrative Agent (as the case may be) shall promptly notify Borrower and shall permit Borrower to participate in such proceeding and in the preparation of submissions in connection with such proceeding to the extent that such Lender or the Administrative Agent reasonably determines that such participation by the Borrower will not be detrimental to its overall position in such proceeding, including with respect to any matters in such proceeding not affecting the Borrower. In the event that such Lender or the Administrative Agent (as the case may be) fails to comply with this provision, with respect to any communication, or administrative or judicial proceeding, Borrower shall have no liability to indemnify such Lender or the Administrative Agent (as the case may be) hereunder with respect to Taxes that are the subject of such communication or proceeding.

Section 13.2. *No Waiver, Cumulative Remedies.* No delay or failure on the part of the Administrative Agent or any Lender or on the part of the holder or holders of any of the Obligations in the exercise of any power or right under any Loan Document shall operate as a waiver thereof or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The rights and remedies hereunder of the Administrative Agent, the Lenders and of the holder or holders of any of the Obligations are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

Section 13.3. *Non-Business Days.* If any payment hereunder becomes due and payable on a day which is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

Section 13.4. *Documentary Taxes.* The Borrower agrees to pay on demand any documentary, stamp or similar taxes payable in respect of this Agreement or any other Loan Document, including interest and penalties, in the event any such taxes are assessed, irrespective of when such assessment is made and whether or not any credit is then in use or available hereunder.

Section 13.5. *Survival of Representations.* All representations and warranties made herein or in any other Loan Document or in certificates given pursuant hereto or thereto are effective as of the time made or deemed made and may give rise to an Event of Default hereunder if they prove untrue in any material respect as of the date of the making or deemed making thereof, notwithstanding any lapse of time subsequent to such date.

Section 13.6. *Survival of Indemnities*. All indemnities and other provisions relative to reimbursement to the Lenders of amounts sufficient to protect the yield of the Lenders with respect to the Loans and Letters of Credit, including, but not limited to, Sections 1.12, 10.3, and 13.15 hereof, shall survive the termination of this Agreement and the other Loan Documents and the payment of the Obligations.

Section 13.7. *Sharing of Set-Off.* Each Lender agrees with each other Lender a party hereto that if such Lender shall receive and retain any payment, whether by set-off or application of deposit balances or otherwise, on any of the Loans or Reimbursement Obligations in excess of its ratable share of payments on all such Obligations then outstanding to the Lenders, then such Lender shall purchase for cash at face value, but without recourse, ratably from each of the other

Lenders such amount of the Loans or Reimbursement Obligations, or participations therein, held by each such other Lenders (or interest therein) as shall be necessary to cause such Lender to share such excess payment ratably with all the other Lenders; *provided, however,* that if any such purchase is made by any Lender, and if such excess payment or part thereof is thereafter recovered from such purchasing Lender, the related purchases from the other Lenders shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest. For purposes of this Section, amounts owed to or recovered by the L/C Issuer in connection with Reimbursement Obligations in which Lenders have been required to fund their participation shall be treated as amounts owed to or recovered by the L/C Issuer as a Lender hereunder.

Section 13.8. *Notices*. Except as otherwise specified herein, all notices hereunder and under the other Loan Documents shall be in writing (including, without limitation, notice by telecopy) and shall be given to the relevant party at its address or telecopier number set forth below, or such other address or telecopier number as such party may hereafter specify by notice to the Administrative Agent and the Borrower given by courier, by United States certified or registered mail, by telecopy or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices under the Loan Documents to the Lenders and the Administrative Agent shall be addressed to their respective addresses or telecopier numbers set forth on the signature pages hereof, and to the Borrower to:

Lincoln Educational Services Corporation
200 Executive Drive, Suite 340
West Orange, New Jersey 07052
Attention: Cesar Ribeiro
Telephone: (973) 736-9340
Telecopy: (973) 243-0841

with a copy to Scott M. Shaw (same address and telephone/telecopy numbers)

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section or on the signature pages hereof and a confirmation of such telecopy has been received by the sender, (ii) if given by mail, 5 Business Days after such communication is deposited in the mail, certified or registered with return receipt requested, addressed as aforesaid or (iii) if given by any other means, when delivered at the addresses specified in this Section or on the signature pages hereof; provided that any notice given pursuant to Section 1 hereof shall be effective only upon receipt.

Section 13.9. *Counterparts*. This Agreement may be executed in any number of counterparts, and by the different parties hereto on separate counterpart signature pages, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

Section 13.10. *Successors and Assigns*. This Agreement shall be binding upon the Borrower and the Guarantors and their successors and assigns, and shall inure to the benefit of the Administrative Agent and each of the Lenders and the benefit of their respective successors and assignee Lenders. The Borrower and the Guarantors may not assign any of their rights or obligations under any Loan Document without the written consent of all of the Lenders.

Section 13.11. *Participants*. Each Lender shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the Loans made and Reimbursement Obligations and/or Commitments held by such Lender at any time and from time to time to one or more other Persons; provided that no such participation shall relieve any Lender of any of its obligations under this Agreement, and, provided, further that no such participant shall have any rights under this Agreement except as provided in this Section, and none of the Borrower, the Subsidiaries or the Administrative Agent shall have any obligation or responsibility to such participant. Any agreement pursuant to which such participation is granted shall provide that the granting Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower under this Agreement and the other Loan Documents including, without limitation, the right to approve any amendment, modification or waiver of any provision of the Loan Documents, except that such agreement may provide that such Lender will not agree, without such participant's consent, to any modification, amendment or waiver of the Loan Documents that would reduce the amount of or postpone any fixed date for payment of any Obligation in which such participant has an interest. Provided that each participant or prospective participant has entered into an agreement to keep such information confidential on the terms set forth in Section 13.23 hereof, the Borrower authorizes each Lender to disclose to any participant or prospective participant under this Section any financial or other information pertaining to the Borrower or any Subsidiary.

Section 13.12. *Assignments*. (a) Each Lender shall have the right at any time, with the prior consent of the Administrative Agent and, so long as no Event of Default then exists, the Borrower (which consent of the Borrower shall not be unreasonably withheld) to sell, assign, transfer or negotiate all or any part of its rights and obligations under the Loan Documents (including, without limitation, the indebtedness evidenced by the Notes then held by such assigning Lender, together with an equivalent percentage of its obligation to make Loans and participate in Letters of Credit) to one or more commercial banks or other financial institutions or investors, provided that such assignment shall be of a fixed percentage (and not a varying percentage) of the assigning Lender's rights and obligations under the Loan Documents; *provided, however,* that in order to make any such assignment (i) unless the assigning Lender is assigning all of its Commitments, outstanding Loans and interests in Letters of Credit Obligations, the assigning Lender shall retain at least $5,000,000 in unused Commitments, outstanding Loans and interests in Letters of Credit, (ii) unless the assigning Lender is assigning all of its Commitments, outstanding Loans and interests in Letters of Credit Obligations, the assignee Lender shall have Commitments, outstanding Loans and interests in Letters of Credit of at least $5,000,000, (iii) each such assignment shall be evidenced by a written agreement (substantially in the form attached hereto as Exhibit G or in such other form acceptable to the Administrative Agent) executed by such assigning Lender, such assignee Lender or Lenders, the Administrative Agent and, if required as provided above, the Borrower, which agreement shall specify in each instance the portion of the Obligations which are to be assigned to the assignee Lender and the portion of the Commitments of the assigning Lender to be assumed by the assignee Lender, and (iv) the assigning Lender shall pay to the Administrative Agent a processing fee of $3,500 and any out-of-pocket attorneys' fees and expenses incurred by the

Administrative Agent in connection with any such assignment agreement; *provided, further, however*, that the Borrower's consent shall not be required with respect to assignments by any Lender to an Affiliate thereof or to an Approved Fund with respect to such Lender. Any such assignee shall become a Lender for all purposes hereunder to the extent of the rights and obligations under the Loan Documents it assumes and the assigning Lender shall be released from its obligations, and will have released its rights, under the Loan Documents to the extent of such assignment. The address for notices to such assignee Lender shall be as specified in the assignment agreement executed by it. Promptly upon the effectiveness of any such assignment agreement, the Borrower shall execute and deliver replacement Notes to the assignee Lender and the assigning Lender in the respective amounts of their Commitments (or assigned principal amounts, as applicable) after giving effect to the reduction occasioned by such assignment (all such Notes to constitute *"Notes"* for all purposes of the Loan Documents), and the assignee Lender shall surrender to the Borrower its old Notes. Provided that each such purchaser or prospective purchaser has entered into an agreement to keep such information confidential on the terms set forth in Section 13.23 hereof, the Borrower authorizes each Lender to disclose to any purchaser or prospective purchaser of an interest in the Loans and interest in Letters of Credit owed to it or its Commitments under this Section any financial or other information pertaining to the Borrower or any Subsidiary.

(b) Any Lender may at any time pledge or grant a security interest to a Federal Reserve Bank in all or any portion of its rights under this Agreement to secure obligations of such Lender to a Federal Reserve Bank, and this Section shall not apply to any such pledge or grant of a security interest; *provided* that no such pledge or grant of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or secured party for such Lender as a party hereto.

Section 13.13. Amendments. Any provision of this Agreement or the other Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by (a) the Borrower, (b) the Required Lenders, and (c) if the rights or duties of the Administrative Agent are affected thereby, the Administrative Agent; provided that:

(i) no amendment or waiver pursuant to this Section 13.13 shall (A) increase any Commitment of any Lender without the consent of such Lender or (B) reduce the amount of or postpone the date for any scheduled payment of any principal of or interest on any Loan or of any Reimbursement Obligation or of any fee payable hereunder, or reduce any rate of interest payable hereunder, without the consent of the Lender to which such payment is owing or which has committed to make such Loan or Letter of Credit (or participate therein) hereunder; and

(ii) no amendment or waiver pursuant to this Section 13.13 shall, unless signed by each Lender, increase the aggregate Commitments of the Lenders, change the definitions of Revolving Credit Termination Date or Required Lenders, change the provisions of this Section 13.13, release any material Guarantor or any substantial part of the Collateral (except as otherwise provided for in the Loan Documents), or affect the number of Lenders required to take any action hereunder or under any other Loan Document.

Section 13.14. *Headings.* Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

Section 13.15. *Costs and Expenses; Indemnification*. (a) The Borrower agrees to pay all costs and expenses of the Administrative Agent in connection with the preparation, negotiation, syndication, and administration of the Loan Documents, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent, in connection with the preparation and execution of the Loan Documents, and any amendment, waiver or consent related thereto, whether or not the transactions contemplated herein are consummated, together with any fees and charges (but subject to any limitations set forth in the Loan Documents) suffered or incurred by the Administrative Agent in connection with periodic environmental audits, regulatory reviews, fixed asset appraisals, title insurance policies, collateral filing fees and lien searches. The Borrower further agrees to indemnify the Administrative Agent, each Lender, and their respective directors, officers, employees, agents, financial advisors, and consultants (collectively, the *"Indemnified Persons"*) against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all reasonable expenses of litigation or preparation therefor, whether or not an Indemnified Person is a party thereto, or any settlement arrangement arising from or relating to any such litigation) which any of them may pay or incur arising out of or relating to any Loan Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any Loan or Letter of Credit (collectively, *"Damages"*), other than those which arise from the gross negligence or willful misconduct of the Indemnified Person claiming indemnification. The Borrower, upon demand by the Administrative Agent or a Lender at any time, shall reimburse the Administrative Agent or such Lender for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing (including any settlement costs relating to the foregoing) except to the extent that the same arises from the gross negligence or willful misconduct of the party to be indemnified. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

(b) In furtherance of paragraph (a) of this Section 13.15, the Borrower also agrees to indemnify the Indemnified Persons for any Damages arising out of any of the following: (i) any presence, Release or threatened Release of any Hazardous Material by the Borrower or any Subsidiary or otherwise occurring on or with respect to its Property (whether owned or leased), (ii) the operation or violation of any Environmental Law by the Borrower or any Subsidiary or otherwise occurring on or with respect to its Property (whether owned or leased), (iii) any Environmental Claim for personal injury or property damage in connection with the Borrower or any Subsidiary or otherwise occurring on or with respect to its Property (whether owned or leased), and (iv) the inaccuracy or breach of any environmental representation, warranty or covenant by the Borrower or any Subsidiary made herein or in any other Loan Document evidencing or securing any Obligations or setting forth terms and conditions applicable thereto or otherwise relating thereto, except for Damages arising from the willful misconduct or gross negligence of the party claiming indemnification.

Section 13.16. *Set-off*. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Lender is hereby authorized by the Borrower and each Guarantor at any time or from time to time, without notice to the Borrower or such Guarantor or to any other Person, any such notice being hereby expressly waived, to set-off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts, and in whatever currency denominated) and any other indebtedness at any time held or owing by that Lender or that subsequent holder to or for the credit or the account of the Borrower or such Guarantor, whether or not matured, against and on account of the Obligations of the Borrower or such Guarantor to that Lender under the Loan Documents, irrespective of whether or not (a) that Lender shall have made any demand hereunder or (b) the principal of or the interest on the Loans or Notes and other amounts due hereunder shall have become due and payable pursuant to Section 9 and although said obligations and liabilities, or any of them, may be contingent or unmatured.

Section 13.17. *Entire Agreement.* The Loan Documents constitute the entire understanding of the parties thereto with respect to the subject matter thereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby.

Section 13.18. *Governing Law*. This Agreement and the other Loan Documents, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the laws of the State of New York (except to the extent a contrary choice of law is specifically elected in any Collateral Document).

Section 13.19. *Severability of Provisions.* Any provision of any Loan Document which is unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. All rights, remedies and powers provided in this Agreement and the other Loan Documents may be exercised only to the extent that the exercise thereof does not violate any applicable mandatory provisions of law, and all the provisions of this Agreement and other Loan Documents are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Agreement or the other Loan Documents invalid or unenforceable.

Section 13.20. *Excess Interest*. Notwithstanding any provision to the contrary contained herein or in any other Loan Document, no such provision shall require the payment or permit the collection of any amount of interest in excess of the maximum amount of interest permitted by applicable law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the Loans or other obligations outstanding under this Agreement or any other Loan Document (*"Excess Interest"*). If any Excess Interest is provided for, or is adjudicated to be provided for, herein or in any other Loan Document, then in such event (a) the provisions of this Section shall govern and control, (b) neither the Borrower nor any guarantor or endorser shall be obligated to pay any Excess Interest, (c) any Excess Interest that the Administrative Agent or any Lender may have received hereunder shall, at the option of the Administrative Agent, be (i) applied as a credit against the then outstanding principal amount of Obligations hereunder and accrued and unpaid interest thereon (not to exceed the maximum amount permitted by applicable law), (ii) refunded to the Borrower, or (iii) any combination of the foregoing, (d) the interest rate payable hereunder or under any other Loan Document shall be automatically subject to reduction to the maximum lawful contract rate allowed under applicable usury laws (the *"Maximum Rate"*), and this Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in the relevant interest rate, and (e) neither the Borrower nor any guarantor or endorser shall have any action against the Administrative Agent or any Lender for any damages whatsoever arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any of Borrower's Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on the Borrower's Obligations shall remain at the Maximum Rate until the Lenders have received the amount of interest which such Lenders would have received during such period on the Borrower's Obligations had the rate of interest not been limited to the Maximum Rate during such period.

Section 13.21. *Construction*. Nothing contained herein shall be deemed or construed to permit any act or omission which is prohibited by the terms of any Collateral Document, the covenants and agreements contained herein being in addition to and not in substitution for the covenants and agreements contained in the Collateral Documents.

Section 13.22. *Lender's Obligations Several*. The obligations of the Lenders hereunder are several and not joint. Nothing contained in this Agreement and no action taken by the Lenders pursuant hereto shall be deemed to constitute the Lenders a partnership, association, joint venture or other entity.

Section 13.23. *Confidentiality.* Each of the Administrative Agent, the Lenders and the L/C Issuer agrees to maintain the confidentiality of the Information (as defined below), except that the Borrower, individually and on behalf of the Subsidiaries, agrees that Information may be disclosed by each of the Administrative Agent, the Lenders and the L/C Issuer (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors in connection with the Loan Documents and the transactions contemplated hereby (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential, the party hereto making such disclosure being responsible for any breach of this Section 13.23 by the Person to whom such disclosure is made), (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (A) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower, the Subsidiaries and their obligations, (g) with the consent of the Borrower, (h) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section or (B) becomes available to the Administrative Agent, any Lender or the L/C Issuer on a nonconfidential basis from a source other than the Borrower or the Subsidiaries and not in breach of any confidentiality requirement or undertaking applicable to such source, (i) to rating agencies if requested or required by such agencies in connection with a rating relating to the Loans or Commitments hereunder, or (j) to entities which compile and publish information about the syndicated loan market, provided that only basic information about the pricing and structure of the transaction evidenced hereby may be disclosed pursuant to this clause (j).

For purposes of this Section, *"Information"* means all information received from the Borrower or any of the Subsidiaries relating to the Borrower or any of the Subsidiaries or any of their respective businesses or properties, *provided* that, in the case of information received from the Borrower or the Subsidiaries after the date hereof, such information is clearly identified at the time of delivery as confidential.

Section 13.24. *Submission to Jurisdiction; Waiver of Jury Trial*. Each of the parties hereto hereby submits to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in the City of Chicago for purposes of all legal proceedings arising out of or relating to this Agreement, the other Loan Documents or the transactions contemplated hereby or thereby. The Borrower and the Guarantors irrevocably waive, to the fullest extent permitted by law, any objection which they may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. THE BORROWER, THE GUARANTORS, THE ADMINISTRATIVE AGENT, AND THE LENDERS HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY.

Section 13.25. *USA Patriot Act*. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the USA Patriot Act.

[SIGNATURE PAGES TO FOLLOW]

This Agreement is entered into between us for the uses and purposes hereinabove set forth as of the date first above written.

"BORROWER"

LINCOLN EDUCATIONAL SERVICES CORPORATION

By /s/ Cesar Ribeiro
Name Cesar Ribeiro
Title VP.CFO

"GUARANTORS"

LINCOLN TECHNICAL INSTITUTE, INC.

By /s/ Cesar Ribeiro
Name Cesar Ribeiro
Title VP. CFO

COMTECH SERVICES GROUP, INC.

By /s/ David F.Carney
Name David F.Carney
Title Chairman & CEO

SOUTHWESTERN ACQUISITION, L.L.C.

By /s/ Cesar Ribeiro
Name Cesar Ribeiro
Title VP.Treasurer

NASHVILLE ACQUISITION, L.L.C.

By /s/ Cesar Ribeiro
Name Cesar Ribeiro
Title VP.Treasurer

NEW ENGLAND ACQUISITION, L.L.C.

By /s/ Cesar Ribeiro

Name Cesar Ribeiro

Title VP.Treasurer

"LENDERS"

HARRIS TRUST AND SAVINGS BANK, in its
individual capacity as a Lender, as
L/C Issuer, and as Administrative Agent

By /s/ Ronald Redd

Name: Ronald Redd

Title: Vice President

Address:
111 West Monroe Street
Chicago, Illinois 60603
Attention: Ronald Redd
Telecopy: (312) 461-3128
Telephone: (312) 293-8445

FLEET NATIONAL BANK

By /s/ James C.Silva

Name James C.Silva

Title Managing Director

Address:
100 Federal Street
Mailcode: MA5-100-09-04
Boston, Massachusetts 02110
Attention: James C. Silva
Telecopy: (617) 434-1692
Telephone: (617) 434-8632

LASALLE BANK NATIONAL ASSOCIATION

By /s/ Paul Korrison

Name Paul Korrison

Title Vice President

Address:

135 South LaSalle Street, Suite 1743
Chicago, Illinois 60603
Attention: Paul Korrison
Telecopy: (312) 904-4779
Telephone: (312) 904-9292

U.S. BANK NATIONAL ASSOCIATION

By /s/ Matthew J. Schulz

Name Matthew J. Schulz

Title Vice President

Address:

777 East Wisconsin Avenue
(MK-WI-TGCB)
Milwaukee, Wisconsin 53202
Attention: Matthew J. Schulz
Telecopy: (414) 765-4632
Telephone: (414) 765-5724

JPMORGAN CHASE BANK, N.A.

By /s/ Harold V. Garrity III

Name Harold V. Garrity III

Title Vice President

Address:

695 Route 46 West
Fairfield, New Jersey 07004
Attention: Hal Garrity
Telecopy: (973) 439-5017
Telephone: (973) 439-5052

Exhibit 10.2

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of January 3, 2005, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and David F. Carney (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

WHEREAS, the Executive and the Company (formerly Lincoln Technical Institute, Inc.) entered into an Employment Agreement, dated January 1, 2003 (the "Original Agreement"), which set forth the terms and conditions of the Executive's employment with the Company;

WHEREAS, the Executive has received a written notice from the Company dated June 29, 2004 indicating that the Original Agreement was terminated on January 1, 2005;

WHEREAS, the parties desire that this Agreement supersede the Original Agreement;

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

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective, and shall supersede the Original Agreement 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 Chairman and Chief Executive Officer of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Board of Directors of the Company (the "Board") and perform 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 commence as of the Effective Date and shall terminate on the second anniversary thereof, 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 $375,000 per annum during the Employment Period. Such rate shall be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in its 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 2005 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 three weeks following receipt by the Board or the Committee of the Company's audited financial statements for 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 two times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination and (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; and

(iii) the employer portion of the premiums necessary to continue the Executive's health care coverage until the earlier of (1) the first anniversary of the date of such Involuntary Termination and (2) the date on which the Executive is covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company).

The Executive shall also be entitled to (i) the continued use of an automobile and payment of associated costs by the Company pursuant to Section 4.2 until the later of (x) the first anniversary of the date of such Involuntary Termination and (y) the second anniversary of the Effective Date and (ii) 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) and (ii) 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.

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 or (ii) by the Executive for Good Reason.

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, the Company shall pay to the Executive, or if applicable his estate 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 including, without limitation, any Annual Bonus due but not yet paid for a completed calendar year.

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 continue the employment of the Executive, and the Executive shall continue performing services for the Company, 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 Options. Notwithstanding anything to the contrary in any of the Option Documents (as defined in Appendix A), upon a Change in Control, all outstanding stock options granted by the Company or any of its affiliates to the Executive shall become fully vested and 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, and (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.

7. REDUCTION OF PAYMENTS

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

8. NO ADDITIONAL RIGHTS

The Executive shall have no right to receive any compensation or benefits upon his termination or resignation of employment, except (i) as expressly set forth in Sections 5 and 6

above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year 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. (a) 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.

(b) The Executive hereby agrees that he shall keep the provisions of this Agreement confidential, and shall not, except as required by law, disclose such provisions to any person other than his immediate family or professional advisors (who also must keep the provisions of this Agreement confidential).

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: Alexandra Luster

if to the Executive:

14 Stuyvesant Road
Montvale, New Jersey 07645

11.2 Waiver and Release. As a condition to receiving the payments set forth in Section 5.1 or Section 6.3, 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 Option 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. 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/ James J. Burke, Jr.
Name: James J. Burke, Jr.
Title: Chairman—Compensation Committee

EXECUTIVE

/s/ David F. Carney
David F. Carney

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) on or prior to the date of the consummation of the Company's initial public offering (the " IPO"),

(i) the merger of the Company with or into another corporation as a result of which Stonington Partners, Inc. ("Stonington"), together with Five Mile River Capital, LLC ("Five Mile"), own less than 50% of the outstanding common stock of the Company, no par value per share (the "Common Stock") (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable) of the surviving company (or parent thereof);

(ii) the sale of all or substantially all of the assets of the Company to an entity not controlled by Stonington; or

(iii) the sale (in a single transaction or series of related transactions) to an entity not controlled by Stonington of shares of the Common Stock and as a result of which Stonington, together with Five Mile, owns less than 50% of the outstanding Common Stock (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable); provided, however, that an IPO shall not constitute a Change in Control; and

(b) following an IPO,

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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

(v) 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, together with Five Mile 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; provided, further, that under no circumstances shall the IPO or an initial public offering of the Company's affiliates constitute a Change in Control.

"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 satisfactory to the Committee acting reasonably 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, 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 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.

"Option 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; and (d) any stock pledge agreement or promissory note relating to the Executive's stock options or shares of Company common stock underlying such options.

APPENDIX B

Exhibit 10.4

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of January 3, 2005, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Lawrence E. Brown (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

WHEREAS, the Executive and the Company (formerly Lincoln Technical Institute, Inc.) entered into an Employment Agreement, dated January 1, 2003 (the "Original Agreement"), which set forth the terms and conditions of the Executive's employment with the Company;

WHEREAS, the Executive has received a written notice from the Company dated June 29, 2004 indicating that the Original Agreement was terminated on January 1, 2005;

WHEREAS, the parties desire that this Agreement supersede the Original Agreement;

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

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective, and shall supersede the Original Agreement 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 President and Chief Operating Officer of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Chairman of the Board of Directors of the Company (the "Board") and the Chief Executive Officer of the Company and perform 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 commence as of the Effective Date and shall terminate on the second anniversary thereof, 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 $330,000 per annum during the Employment Period. Such rate shall be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in its 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 2005 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 three weeks following receipt by the Board or the Committee of the Company’s audited financial statements for 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 a half times the sum of (x) the Executive’s annual Base Salary, at a rate in effect at the date of such termination and (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; and

(iii) the employer portion of the premiums necessary to continue the Executive’s health care coverage until the earlier of (1) the first anniversary of the date of such Involuntary Termination and (2) the date on which the Executive is covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company).

The Executive shall also be entitled to (i) the continued use of an automobile and payment of associated costs by the Company pursuant to Section 4.2 until the later of (x) the first anniversary of the date of such Involuntary Termination and (y) the second anniversary of the Effective Date and (ii) 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) and (ii) 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.

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 or (ii) by the Executive for Good Reason.

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, the Company shall pay to the Executive, or if applicable his estate 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 including, without limitation, any Annual Bonus due but not yet paid for a completed calendar year.

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 continue the employment of the Executive, and the Executive shall continue performing services for the Company, 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 Options. Notwithstanding anything to the contrary in any of the Option Documents (as defined in Appendix A), upon a Change in Control, all outstanding stock options granted by the Company or any of its affiliates to the Executive shall become fully vested and 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 and a half times the amount of his Base Salary, as is then in effect, and (ii) one and a half 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.

7. REDUCTION OF PAYMENTS

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

8. NO ADDITIONAL RIGHTS

The Executive shall have no right to receive any compensation or benefits upon his termination or resignation of employment, except (i) as expressly set forth in Sections 5 and 6

above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year 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. (a) 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.

(b) The Executive hereby agrees that he shall keep the provisions of this Agreement confidential, and shall not, except as required by law, disclose such provisions to any person other than his immediate family or professional advisors (who also must keep the provisions of this Agreement confidential).

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: Alexandra Luster

if to the Executive:

56 Redner Road
Morristown, New Jersey 07960

11.2 Waiver and Release. As a condition to receiving the payments set forth in Section 5.1 or Section 6.3, 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 Option 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. 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/ David F. Carney
Name: David F. Carney
Title: Chairman & CEO

EXECUTIVE

/s/ Lawrence E. Brown
Lawrence E. Brown

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) on or prior to the date of the consummation of the Company's initial public offering (the " IPO"),

(i) the merger of the Company with or into another corporation as a result of which Stonington Partners, Inc. ("Stonington"), together with Five Mile River Capital, LLC ("Five Mile"), own less than 50% of the outstanding common stock of the Company, no par value per share (the "Common Stock") (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable) of the surviving company (or parent thereof);

(ii) the sale of all or substantially all of the assets of the Company to an entity not controlled by Stonington; or

(iii) the sale (in a single transaction or series of related transactions) to an entity not controlled by Stonington of shares of the Common Stock and as a result of which Stonington, together with Five Mile, owns less than 50% of the outstanding Common Stock (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable); provided, however, that an IPO shall not constitute a Change in Control; and

(b) following an IPO,

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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

(v) 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, together with Five Mile 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; provided, further, that under no circumstances shall the IPO or an initial public offering of the Company's affiliates constitute a Change in Control.

"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 satisfactory to the Committee acting reasonably 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, 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 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.

“Option 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; and (d) any stock pledge agreement or promissory note relating to the Executive’s stock options or shares of Company common stock underlying such options.

APPENDIX B

Exhibit 10.6

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of January 3, 2005, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Scott M. Shaw (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

WHEREAS, the Executive and the Company (formerly Lincoln Technical Institute, Inc.) entered into an Employment Agreement, dated January 1, 2003 (the "Original Agreement"), which set forth the terms and conditions of the Executive's employment with the Company;

WHEREAS, the Executive has received a written notice from the Company dated June 29, 2004 indicating that the Original Agreement was terminated on January 1, 2005;

WHEREAS, the parties desire that this Agreement supersede the Original Agreement;

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

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective, and shall supersede the Original Agreement 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 Senior Vice President of Strategic Planning and Business Development of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Chairman of the Board of Directors of the Company (the " Board") and the Chief Executive Officer of the Company and perform 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 commence as of the Effective Date and shall terminate on the second anniversary thereof, 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 $280,000 per annum during the Employment Period. Such rate shall be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in its 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 2005 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 three weeks following receipt by the Board or the Committee of the Company's audited financial statements for 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 times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination and (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; and

(iii) the employer portion of the premiums necessary to continue the Executive's health care coverage until the earlier of (1) the first anniversary of the date of such Involuntary Termination and (2) the date on which the Executive is covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company).

The Executive shall also be entitled to (i) the continued use of an automobile and payment of associated costs by the Company pursuant to Section 4.2 until the later of (x) the first anniversary of the date of such Involuntary Termination and (y) the second anniversary of the Effective Date and (ii) 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) and (ii) 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.

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 or (ii) by the Executive for Good Reason.

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, the Company shall pay to the Executive, or if applicable his estate 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 including, without limitation, any Annual Bonus due but not yet paid for a completed calendar year.

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 continue the employment of the Executive, and the Executive shall continue performing services for the Company, 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 Options. Notwithstanding anything to the contrary in any of the Option Documents (as defined in Appendix A), upon a Change in Control, all outstanding stock options granted by the Company or any of its affiliates to the Executive shall become fully vested and 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, and (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.

7. REDUCTION OF PAYMENTS

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

8. NO ADDITIONAL RIGHTS

The Executive shall have no right to receive any compensation or benefits upon his termination or resignation of employment, except (i) as expressly set forth in Sections 5 and 6

above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year 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. (a) 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.

(b) The Executive hereby agrees that he shall keep the provisions of this Agreement confidential, and shall not, except as required by law, disclose such provisions to any person other than his immediate family or professional advisors (who also must keep the provisions of this Agreement confidential).

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: Alexandra Luster

if to the Executive:

126 Tower Hill Road
Tuxedo Park, NY 10987

11.2 Waiver and Release. As a condition to receiving the payments set forth in Section 5.1 or Section 6.3, 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 Option 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. 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/ David F. Carney
Name: David F. Carney
Title: Chairman & CEO

EXECUTIVE

/s/ Scott M. Shaw
Scott M. Shaw

APPENDIX A

"Cause" shall mean, with respect to the Executive, the following:

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

(b) on or after a Change in Control, (i) the Executive's willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Executive's duties of employment, (iii) the Executive's conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), (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) on or prior to the date of the consummation of the Company's initial public offering (the " IPO"),

(i) the merger of the Company with or into another corporation as a result of which Stonington Partners, Inc. ("Stonington"), together with Five Mile River Capital, LLC ("Five Mile"), own less than 50% of the outstanding common stock of the Company, no par value per share (the "Common Stock") (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable) of the surviving company (or parent thereof);

(ii) the sale of all or substantially all of the assets of the Company to an entity not controlled by Stonington; or

(iii) the sale (in a single transaction or series of related transactions) to an entity not controlled by Stonington of shares of the Common Stock and as a result of which Stonington, together with Five Mile, owns less than 50% of the outstanding Common Stock (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable); provided, however, that an IPO shall not constitute a Change in Control; and

(b) following an IPO,

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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

(v) 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, together with Five Mile 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; provided, further, that under no circumstances shall the IPO or an initial public offering of the Company's affiliates constitute a Change in Control.

"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 satisfactory to the Committee acting reasonably 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, 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 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.

"Option 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; and (d) any stock pledge agreement or promissory note relating to the Executive's stock options or shares of Company common stock underlying such options.

APPENDIX B

Exhibit 10.8

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of January , 2005, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Cesar Ribeiro (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

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

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective, as of the date hereof (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 Vice President and Chief Financial Officer of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Chairman of the Board of Directors of the Company (the " Board") and the Chief Executive Officer of the Company and perform 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 commence as of the Effective Date and shall terminate on the second anniversary thereof, 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 $250,000 per annum during the Employment Period. Such rate shall be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in its 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 2005 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 three weeks following receipt by the Board or the Committee of the Company's audited financial statements for 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 times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination and (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, or in the event that the Involuntary Termination occurs prior to the first anniversary of the Effective

Date, the Annual Bonus paid to the Executive for the year 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; and

(iii) the employer portion of the premiums necessary to continue the Executive's health care coverage until the earlier of (1) the first anniversary of the date of such Involuntary Termination and (2) the date on which the Executive is covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company).

The Executive shall also be entitled to (i) the continued use of an automobile and payment of associated costs by the Company pursuant to Section 4.2 until the later of (x) the first anniversary of the date of such Involuntary Termination and (y) the second anniversary of the Effective Date and (ii) 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) and (ii) 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.

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 or (ii) by the Executive for Good Reason.

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, the Company shall pay to the Executive, or if applicable his estate 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 including, without limitation, any Annual Bonus due but not yet paid for a completed calendar year.

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 continue the employment of the

Executive, and the Executive shall continue performing services for the Company, 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 Options. Notwithstanding anything to the contrary in any of the Option Documents (as defined in Appendix A), upon a Change in Control, all outstanding stock options granted by the Company or any of its affiliates to the Executive shall become fully vested and 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, and (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.

7. REDUCTION OF PAYMENTS

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

8. NO ADDITIONAL RIGHTS

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

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year 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. (a) 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.

(b) The Executive hereby agrees that he shall keep the provisions of this Agreement confidential, and shall not, except as required by law, disclose such provisions to any person other than his immediate family or professional advisors (who also must keep the provisions of this Agreement confidential).

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: Alexandra Luster

if to the Executive:

31 Fountayne Lane
Skillman, NJ 08558

11.2 Waiver and Release. As a condition to receiving the payments set forth in Section 5.1 or Section 6.3, 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 Option 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. 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/ David F. Carney
Name: David F. Carney
Title: Chairman & CEO

EXECUTIVE

/s/ Cesar Ribeiro
Cesar Ribeiro

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) on or prior to the date of the consummation of the Company's initial public offering (the " IPO"),

(i) the merger of the Company with or into another corporation as a result of which Stonington Partners, Inc. ("Stonington"), together with Five Mile River Capital, LLC ("Five Mile"), own less than 50% of the outstanding common stock of the Company, no par value per share (the "Common Stock") (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable) of the surviving company (or parent thereof);

(ii) the sale of all or substantially all of the assets of the Company to an entity not controlled by Stonington; or

(iii) the sale (in a single transaction or series of related transactions) to an entity not controlled by Stonington of shares of the Common Stock and as a result of which Stonington, together with Five Mile, owns less than 50% of the outstanding Common Stock (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable); provided, however, that an IPO shall not constitute a Change in Control; and

(b) following an IPO,

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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

(v) 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, together with Five Mile 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; provided, further, that under no circumstances shall the IPO or an initial public offering of the Company's affiliates constitute a Change in Control.

"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 satisfactory to the Committee acting reasonably 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, 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 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.

“Option 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; and (d) any stock pledge agreement or promissory note relating to the Executive’s stock options or shares of Company common stock underlying such options.

APPENDIX B

Exhibit 10.14

LINCOLN TECHNICAL INSTITUTE
MANAGEMENT STOCK OPTION PLAN

(Effective January 1, 2002)

1. **Purpose.** The Lincoln Technical Institute Management Stock Option Plan (the "*Plan*") is intended to further the best interests of Lincoln Technical Institute, Inc., a New Jersey corporation (the "*Company*"), and its subsidiaries by encouraging key employees, consultants and non-employee directors of the Company and such subsidiaries to continue their association with the Company and its subsidiaries and by providing additional incentive for unusual industry and efficiency through offering an opportunity to acquire a proprietary stake in the Company and its future growth. The Company believes that this goal may best be achieved through the grant of nonqualified stock options (the " *Nonqualified Stock Options*") or incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the " *Code*") (the "*Incentive Stock Options*", and together with the Nonqualified Stock Options, the "*Options*"), to purchase shares of Class A common stock, no par value, of the Company (" *Common Stock*"). Options are sometimes referred to herein as "*Awards*".

2. **Shares Subject to Plan.** There are reserved for issue upon the exercise of Options granted under the Plan no more than 2,087,835 shares (the "*Option Shares*") of the *Company's* authorized Common Stock. The Option Shares are reserved for grant as either Service Options (as defined below) or Performance Options (as defined below). If any Option granted under the Plan shall expire or terminate without having been exercised in full or cancelled in exchange for a cash or other payment, subject to the terms of Section 9 hereof, the unissued Option Shares subject thereto shall again be available for the purposes of the Plan. Notwithstanding the foregoing, the maximum number of shares of Common Stock that may be issued in connection with Incentive Stock Options is 1,043,917 shares, subject to such adjustments under Section 8 as may be permitted under Section 422 of the Code.

3. **Effective Date of Plan.** The Plan shall take effect on January 1, 2002 (the "*Effective Date*"). The shareholders of the Company shall duly approve the Plan within 12 months after its adoption by the Board of Directors of the Company (the " *Board*"). If such shareholder approval is not obtained, then the Plan shall be void *ab initio* and any Awards made hereunder shall be automatically rescinded.

4. **Administration of the Plan.** The Plan shall be administered by the Board or by the Compensation Committee of the Board (the "*Committee*"). The Board may authorize the Committee to exercise any and all of the powers and functions of the Board pursuant to the Plan. The interpretation and construction by the Committee or the Board of any provisions of the Plan or of any Awards granted under it shall be final and conclusive. No member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Awards granted under it.

5. **Eligibility.** Options may be granted only to those key employees ("*Employees*"), consultants ("*Consultants*") and non-employee directors ("*Directors*") of the

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Company or of any subsidiary of the Company (as such term is defined in Section 425 of the Code) selected by the Board or the Committee (together, the "*Participants*").

6. **Options.**

(a) Grant of Options. The Company, by action of the Board or of the Committee and subject to the provisions of this Plan, may, from time to time, grant Options to purchase Option Shares to Participants and for such number of Option Shares as may be determined by the Board or the Committee. Each grant of an Option pursuant to this Plan shall be made in writing and upon such terms and conditions as may be determined by the Board or by the Committee at the time of grant, subject to the provisions and limitations set forth in this Plan. The grant of any such Option shall be evidenced by a written agreement executed by such officer of the Company as is designated in the resolution of the Board or the Committee authorizing such Option grant, and the date thereof shall be the date of grant of such Option.

(b) Option Price. The per share exercise price of each Option (the "*Option Price*") granted pursuant to this Plan shall be determined by the Board or by the Committee; *provided* that the Option Price of any Options granted on the Effective Date shall be $3.10 per Option Share. Notwithstanding the foregoing, the Option Price for an Incentive Stock Option shall be no less than 100% of the fair market value of a share of Common Stock as of the date of grant, as determined in good faith by the Committee in accordance with Section 422 of the Code.

(c) Duration of Options. The period for which each Option granted hereunder shall be effective shall commence upon the date of the written agreement evidencing such Option and (unless otherwise expressly specified in such written agreement) shall continue until such Option shall be terminated according to its terms or as hereinafter provided (the "*Option Period*"). Except as otherwise expressly provided in this Section 6(c) and in Section 10 hereof, an Option (whether or not exercisable) shall terminate immediately upon an Employee's ceasing to be an employee, a Consultant's ceasing to be a consultant or, in the case of a Director, a Director's ceasing to be a member of the Board of the Company or any of its subsidiaries. The Option Period of any Option granted pursuant to this Plan shall terminate upon the earliest to occur of (1) the tenth anniversary of the date of the written agreement evidencing such Option and (2) the following dates:

(i) the six-month anniversary of the date upon which the Participant holding such Option ceases to be an employee, consultant or director of the Company or its subsidiaries by reason of death;

(ii) unless otherwise specifically provided in any agreement between the Participant and the Company or one of its subsidiaries, the thirty-day anniversary of the date of the Retirement or Disability (as such terms are defined in the Management Stockholders Agreement dated April 1, 2001, by and among the Company, the Management Investors (as defined therein) parties thereto and Stonington (as defined therein) (as in effect from time to time, the "*Management Stockholders Agreement*")) of the Participant if the Participant retires or is disabled while an employee, consultant or director of the Company or any of its subsidiaries, or the thirty-day anniversary of the date of Retirement, Disability or Involuntary Termination (as defined in the Management

Stockholders Agreement) of the Participant; *provided*, *however*, that in the event of a Participant's termination of employment due to Retirement, Disability or Involuntary Termination, Performance Options shall terminate on the thirty-day anniversary of the later of (A) such termination of employment and (B) April 15th of the year in which such termination of employment occurred.

(iii) immediately upon a Participant's Voluntary Resignation (as defined in the Management Stockholders Agreement) or termination of employment, consultancy or directorship with the Company or any of its subsidiaries for Cause (as defined in the Management Stockholders Agreement).

(d) Non-Transferability. No Option granted pursuant to this Plan may be sold, offered, disposed of pledged, hypothecated, encumbered or otherwise transferred by the Participant except to a deceased Participant's executors, administrators and testamentary trustees or as provided in the Management Stockholders Agreement, and, further, during the lifetime of the Participant, the Option may be exercised only by, or on behalf of, the Participant.

(e) Incentive Stock Options Granted to Certain Shareholders . No Incentive Stock Option may be issued pursuant to the Plan to any individual who, at the time the Option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary (as defined in Section 424 of the Code) of the Company, unless (i) the Option Price determined as of the date of grant is at least 110% of the fair market value on the date of grant of the shares of Common Stock subject to such Option, as determined in good faith by the Board in accordance with Section 422 of the Code, and (ii) the Incentive Stock Option is not exercisable more than five years from the date of grant.

(f) Exercisability and Vesting of Options. Options granted hereunder shall be designated by the Board or the Committee as Service Options or Performance Options. Options shall become exercisable pursuant to the following terms and (except as otherwise expressly provided for in the agreement granting such Option, in any agreement between the Company and the Participant or below in this Section 6(f)) only if the Employee is an employee or the Consultant is a consultant of the Company or any of its subsidiaries (as determined pursuant to Section 10 hereof) or, in the case of a Director, the Director is a member of the Board or board of directors of any of its subsidiaries on the date on which such Option becomes exercisable. An Option (or portion thereof) which becomes exercisable pursuant to the terms of this Section 6(f) is referred to as a " *Vested Option*."

(i) The Board or the Committee may designate certain Options as Service Options (" *Service Options*"). Except as the Board or the Committee may otherwise determine, Service Options granted on the Effective Date shall vest and become exercisable with respect to 20% of the Option Shares as of the first anniversary of the date of grant and with respect to an additional 20% of the Option Shares as of each of the second, third, fourth and fifth anniversaries of the date of grant; *provided* that the Employee or Consultant remains in the employ of the Company or any of its subsidiaries (as determined pursuant to Section 10 hereof) or the Director remains a member of the Board or board of directors of any of its subsidiaries; and *provided*, *further*, that in the event of a Change in Control (as herein defined) of the Company all

outstanding unvested Service Options held by Participants shall become fully vested and immediately exercisable on the effective date of such Change in Control.

(ii) The Board or the Committee may designate certain Options as Performance Options (" *Performance Options*"). Except as the Board or the Committee may otherwise determine, or except as expressly provided for in the agreement granting such Option, Performance Options shall vest and become exercisable at a rate of up to 20% per year subject to the achievement of predetermined EBITDA Value (as defined in Schedule I hereto) targets for each fiscal year of the Company (the "*Target EBITDA Values*"), or the achievement of cumulative EBITDA Value targets (the "*Cumulative Target EBITDA Values*"). Performance Options shall vest and become exercisable on April 15 th following the year in which the Target EBITDA Values or the Cumulative Target EBITDA Values are achieved, *provided* that the Participant (A) remains in the employ of the Company or any of its subsidiaries (as determined pursuant to Section 10 hereof), or (B) is no longer in the employ of the Company or any of its subsidiaries due to an Involuntary Termination which occurred after the last day of the fiscal year of the Company. The Target EBITDA Values and the Cumulative Target EBITDA Values for a grant of Performance Options shall be established prior to the relevant date of grant. If the Target EBITDA Value for a fiscal year is not achieved, none of the Performance Options subject to vesting for such fiscal year shall become exercisable and such Performance Options shall instead remain eligible to vest and become exercisable if and when the applicable Cumulative Target EBITDA Value is achieved; *provided*, *further*, that in the event of a Change in Control, all outstanding Performance Options held by Participants shall become fully vested and immediately exercisable on the effective date of such Change in Control; *provided*, *further*, that in the event of an IPO (as defined in the Management Stockholders Agreement) Performance Options not yet vested will no longer become exercisable in accordance with this Section 6(f)(ii) and will vest and become exercisable as if they were Service Options, in the same manner as determined under clause (i) of this Section 6(f).

Subject to Sections 8 and 11 hereof, the Target EBITDA Values and the Cumulative Target EBITDA Values as established pursuant to the Plan, shall be adjusted as determined by the Board in good faith if there has been a disposition of assets representing a substantial portion of the consolidated assets of the Company, an acquisition of assets representing a substantial portion of the consolidated assets of the Company, a recapitalization or merger of the Company, or other extraordinary transaction in the preceding four quarters.

(iii) "*Change in Control*," shall mean: (A) on or prior to an IPO (i) the merger of the Company with or into another corporation as a result of which Stonington owns less than 30% of the outstanding common stock (on a fully diluted basis, assuming exercise of all options and warrants, whether or not then exercisable) of the surviving company (or parent thereof), (ii) the sale of all or substantially all of the assets of the Company to an entity not controlled by Stonington, or (iii) the sale (in a single transaction or series of related transactions) to an entity not controlled by Stonington of shares of Common Stock and as a result of which Stonington owns less than 30% of the outstanding Common Stock (on a fully, diluted basis, assuming exercise of all options and warrants, whether or not then exercisable); *provided*, *however*, that an IPO shall not constitute a Change in Control; and (B) following an IPO (1) when a "person", as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the " *Exchange Act*") and as used in Sections 13(d) and 14(d) thereof, including a "group", as defined in Section

13(d) and 14(d) thereof either directly or indirectly becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of 15% or more of either (i) the then outstanding Common Stock or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; *provided*, *however*, that the following acquisitions shall not constitute a Change in Control (i) any acquisition directly from the Company, (ii) any acquisition by the Company, or (iii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; (2) when, during any period of 24 consecutive months during the existence of the Plan, 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, (3) 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; (4) the consummation of a reorganization, merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 60% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such reorganization, merger or consolidation is owned by persons who were not stockholders of the Company immediately prior to such reorganization, merger, consolidation; or (5) 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.

(g) Procedure for Exercise and Payment for Shares. Exercise of an Option shall be made by the giving of written notice to the Company by the Participant. Such written notice shall be deemed sufficient for this purpose only if it (i) is delivered to the Company at its principal offices, (ii) states the number of Option Shares with respect to which the Option is being exercised, and (iii) states the date, no earlier than the fifth business day after, and no later than the tenth business day after, the date of such notice, upon which the Option Shares shall be purchased and payment therefor shall be made. The payments for Option Shares purchased pursuant to exercise of an Option shall be made at the principal offices of the Company. Upon (x) the exercise of any Option, in compliance with the provisions of this Section 6(g), (y) receipt by the Company of the payment for the Option Shares so purchased together with cash in the amount of (or the making of arrangements referred to in Section 13 of the Plan with respect to) any taxes required to be collected or withheld as a result of the exercise of this Option, and (z) receipt by the Company of an executed copy of the Management Stockholders Agreement (unless such Participant is already a party thereto or the Company receives such other evidence as the Company may reasonably require to ensure that the Option Shares issuable upon exercise of the Option shall be subject to the Management Stockholders Agreement), the Company shall deliver or cause to be delivered to the Participant so exercising an Option a certificate or certificates for the number of Option Shares with respect to which the Option is so exercised and payment is so made. The Option Shares shall be registered in the name of the exercising Participant; *provided* that in no event shall any Option Shares be issued pursuant to exercise of an Option until full payment therefor shall have made in one of the manners set forth below; and *provided*, *further*, that until such payment has been made, the exercising Participant shall have no rights of a shareholder. For purposes of this paragraph, the date of issuance shall be the date

upon which payment in full has been received by the Company as provided herein. The exercise price shall be payable at the election of the Participant, in whole or in part, in any one or a combination of cash or " *Mature Common Stock*" valued at the Fair Value Price (as defined below) as of the date the notice of exercise is given. Mature Common Stock is defined as shares of Common Stock held by such Participant for more than six months.

(h) Cash-Out of Certain Options. (i) Without limiting any rights of the Company under the Management Stockholders Agreement, the Board or Committee may in its sole discretion cancel the vested portion of any Option held by a person who is at such time no longer an employee, consultant or director of the Company or its subsidiaries in exchange for a cash payment equal to the excess of (x) the Fair Value Price (as defined below) of the Option Shares subject to such Vested Option, over (y) the Option Price for such Option Shares, multiplied by the number of Option shares subject to such cancelled Options; *provided*, *however*, that the exercise of the right of the Board or the Committee hereunder shall not be made in contemplation of a Change in Control or an IPO.

(ii) Without limiting any rights of the Company under the Management Stockholders Agreement, the Board or the Committee may cancel any outstanding Option in exchange for a cash payment, or in the discretion of the Board or the Committee payment of other property, to the Participant equal to the excess of (x) the fair market value (as determined in good faith by the Board) of the consideration received per Stonington Share by Stonington in any sale (by merger, stock purchase or otherwise) to a person which is not an Affiliate (as defined in the Management Stockholders Agreement) of the Company or Stonington of all the then issued and outstanding Stonington Shares (as defined in the Management Stockholders Agreement) (a " *Transfer Event*"), over (y) the Option Price for such Option Shares, multiplied by the number of Option Shares subject to such cancelled Options, in each case effective upon the consummation of the Transfer Event.

(iii) "*Fair Value Price*," shall mean, with respect to each Option Share, as of any date of determination, (X) in the event there is no public market for the Common Stock, the quotient obtained by dividing (a) the excess of (I) the product of (A) the Company's EBITDA (as defined in the Management Stockholders Agreement) for the four full fiscal quarters ending immediately preceding the date of determination, and (B) 6.0 over (II) the excess of (C) the sum of (x) the aggregate principal amount of any Indebtedness (as defined in the Management Stockholders Agreement), determined in accordance with GAAP (as defined in the Management Stockholders Agreement), as of the end of the most recently completed fiscal quarter of the Company and (y) the aggregate liquidation value (including any accrued dividends thereon) of any outstanding preferred stock of the Company or any of its subsidiaries that is held by persons or entities other than the Company or any of its subsidiaries, determined in accordance with GAAP, as of the end of the most recently completed fiscal quarter of the Company, over (D) the sum of the amount of cash deemed to be on hand as of the end of such quarter as a result of the assumed exercise of all outstanding Options as described in the next paragraph and the amount of cash and cash equivalents, determined in accordance with GAAP, held by the Company or any of its subsidiaries as of the end of such quarter by (b) the number of Shares then outstanding determined on a fully diluted basis as of the end of its most recently completed fiscal quarter of the Company; *provided*, *however*, if there had been a disposition of assets representing a substantial portion of the consolidated assets of the Company, an acquisition of assets

representing a substantial portion of the consolidated assets of the Company, a recapitalization or merger of the Company, or other extraordinary transaction in the preceding four quarters then the Fair Value Price shall be adjusted as determined by the Board in good faith or (Y) in the event of a public market for the Common Stock, the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, or such other national securities exchange as may be designated by the Board, or, in the event that the Common Stock is not listed for trading on a national securities exchange but is quoted on an automated system, on such automated system, in any such case on the date of determination (or, if there were no sales on the date of determination, the closing price of a share of Common Stock as reported on said composite tape or automated system for the most recent day during which a sale occurred).

In making calculations for purposes of subclauses (a) and (b) of clause (X) of the preceding paragraph it shall be assumed that all Options (whether or not then vested or exercisable), warrants and rights to purchase shares of Common Stock and securities convertible or exchangeable into shares of Common Stock, if any, outstanding on the date as of which the calculation is being made had been exercised, converted or exchanged on such date if the exercise price or conversion or exchange price is less than the Fair Value Price per share and any purchase price for shares of Common Stock payable upon such exercise had been paid in cash and appropriate adjustments (including without limitation the reflection of such cash exercise price and the issuance of such additional shares of Common Stock) made to the relevant balance sheet of the Company.

7. Requirements of Law and of Certain Agreements. If any law or any regulation of any commission or agency of competent jurisdiction shall require the Company or the exercising Participant to take any action with respect to any Option Shares, then the date upon which the Company shall issue or cause to be issued the certificate or certificates for such Option Shares shall be postponed until full compliance has been made with all such requirements of law or regulation; *provided* that the Company shall use reasonable efforts to take all necessary action to comply with such requirements of law or regulation. Further, if requested by the Company, at or before the time of the issuance of such Option Shares, the Participant shall deliver to the Company his or her written statements satisfactory in form and content to the Company, that he or she intends to hold the option Shares so acquired by him or her for investment and not with a view to resale or other distribution thereof to the public in violation of the Securities Act or any applicable state securities or "blue sky" law. Moreover, in the event that the Company shall determine in its sole discretion that, in compliance with the Securities Act or any applicable state securities or "blue sky" law, it is necessary to register any of the Option Shares, or to qualify any such Option Shares for exemption from any of the requirements of the Securities Act or any other applicable statute or regulation, no Options may be exercised until the required action has been completed; *provided* that the Company shall use reasonable efforts to take all necessary action to comply with such requirements of law or regulation. All Option Shares shall bear the legends provided for in the Management Stockholders Agreement.

8. Adjustments. In the event of the declaration of any stock dividend on any class of shares of common stock of the Company or in the event of any reorganization, merger, consolidation, acquisition, disposition, separation, recapitalization, stock split, split-up, spin-off, combination or exchange of any such shares of Common Stock or like event, the number and/or

character of the Option Shares and/or the Option Price of any Option granted under the Plan, shall be appropriately adjusted by changes in this Plan and in any Options outstanding pursuant to this Plan (including, if appropriate, by substitution of options of the successor or transferee company in the event of a merger or disposition, cash or other property for the Options) that may be deemed to be appropriate by the Committee or the Board, acting in good faith.

9. Grant of Terminated Options. If any Option (or any portion thereof) terminates as a result of an Participant's ceasing to be an Employee, Consultant or Director of the Company or its subsidiaries, the Committee or the Board may grant to any Participant other than such former Participant an additional Option or Options with respect to the unissued Option Shares previously subject to the Option (or portion thereof) so terminated at such price and on terms and conditions determined by the Board at the date of such grant.

10. Termination of Employment or Consultancy.

(a) The employment of an Employee shall not be deemed to have terminated if the Employee is an employee of the Company who is transferred to and becomes an employee of a subsidiary of the Company or, if he or she is an employee of a subsidiary of the Company, who is transferred to and becomes an employee of the Company or another subsidiary of the Company; *provided*, *however*, that if a subsidiary of the Company ceases to be a subsidiary, all employees of such subsidiary not theretofore transferred to and becoming employees of the Company or of another subsidiary of the Company shall be deemed to have ceased to be Employees within the meaning of this Plan on the date such subsidiary ceases to be a subsidiary of the Company.

(b) The consultancy of a Consultant shall not be deemed to have terminated if the Consultant is a Consultant of the Company who is transferred to and becomes an consultant of a subsidiary of the Company or, if he or she is a consultant of a subsidiary of the Company, who is transferred to and becomes a consultant of the Company or another subsidiary of the Company; *provided*, *however*, that if a subsidiary of the Company ceases to be a subsidiary, any consultants of such subsidiary not theretofore transferred to and becoming consultants of the Company or of another subsidiary of the Company shall be deemed to have ceased to be Consultants within the meaning of this Plan on the date such subsidiary ceases to be a subsidiary of the Company.

11. <u>Termination, Amendment or Discontinuance of the Plan</u>.

(a) This Plan shall terminate upon, and no Options shall be granted after, the close of business on January 1, 2012 unless it shall have sooner terminated by there having been granted and either fully exercised or cancelled in exchange for a cash payment Options covering the entire 2,087,835 Option Shares subject to this Plan.

(b) The Board may, insofar as permitted by law, amend, suspend, or discontinue this Plan at any time without restriction; *provided*, *however*, that the Board may not alter or amend or discontinue or revoke of otherwise impair any outstanding Options which have been granted pursuant to this Plan and which remain unexercised in a manner adverse to Option holders, except in an adjustment referred to in Section 8 above or in Section 11(c) below, or

except in the event that there is secured the written consent of the holder of the outstanding Option proposed to be so altered or amended. Nothing contained in this paragraph, however, shall in any way condition or limit the termination of an Option as hereinabove provided where reference is made to termination of employment, consultancy or directorship of a Participant. The Option Period of any outstanding Option shall not be extended by any amendment or suspension or discontinuance of the Plan.

(c) In the event of the declaration of any stock dividend on any class of shares of common stock of the Company or in the event of any reorganization, merger, consolidation, acquisition, disposition, separation, recapitalization, stock split, split-up, spin-off, combination or exchange of any such shares of Common Stock or like event, such substitution or adjustments (including if appropriate substitution of options of the successor or transferee company in the event of a merger or disposition, cash or other property) shall be made in the aggregate number of shares reserved for issuance under the Plan, and in the vesting criteria of outstanding Options, as may be determined to be appropriate by the Committee or the Board, acting in good faith.

12. <u>Liquidation of the Company</u>. In the event of the complete liquidation or dissolution of the Company other than as an incident to a merger, reorganization, or other transaction referred to in Section 8 or 11(c) above, any Options remaining unexercised shall be deemed cancelled without regard to or limitation by any other provision of this Plan and each Vested Option shall be entitled to a payment in cancellation thereof equal to the excess, if any, of the amount received per Option Share in such liquidation or dissolution over the Option Price, multiplied by the number of Option Shares subject to such Option.

13. <u>General Provisions</u>.

(a) Nothing contained in the Plan shall prevent the Company or any subsidiary from adopting other or additional compensation arrangements for its employees, consultants or directors.

(b) The adoption of the Plan shall not confer upon any Employee any right to continued employment, any Consultant any right to continued consultancy or any Director any right to continue as a member of the Board or board of directors of any of its subsidiaries, nor shall it interfere in any way with the right of the Company or any subsidiary to terminate the employment, consultancy or directorship of any Employee, Consultant or Director at any time.

(c) No later than the date as of which an amount first becomes includible in the gross income of the Participant for Federal income tax purposes with respect to Option Shares acquired pursuant to the exercise of any Option hereunder, such Participant shall pay to the Company, or make arrangements reasonably satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount; *provided*, *however*, that such arrangements need not involve the advancement by the Company of any funds to, for or on behalf of any Participant or the incurrence or payment by the Company of any costs or expenses. With the approval of the Committee, a Participant may satisfy the foregoing requirements by electing to have the Company withhold from delivery shares of Common Stock having a value equal to the amount of tax to be withheld (but not in excess of the Company's minimum statutory withholding). The

obligations of the Company hereunder shall be conditional on such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant.

(d) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of New York without reference to the choice of law principles thereof.

SCHEDULE I

EBITDA Values

Fiscal	2002		2003		2004		2005		2006	
Target EBITDA Value (thousands)	$	13,000	$	18,000	$	23,000	$	26,500	$	30,000
Cumulative Target EBITDA Value (thousands)	$	13,000	$	31,000	$	54,000	$	80,500	$	110,500

EBITDA Value for a fiscal year shall mean the consolidated earnings from continuing operations of the Company and its subsidiaries for such period before consolidated interest, taxes, depreciation and amortization, determined in accordance with GAAP in effect on the date hereof and consistent with the principles utilized in connection with the preparation of the audited financial statements of the Company for the Fiscal Year ended December 31, 2002 excluding (i) extraordinary charges and gains and (ii) any charges or gains attributable to the grant or exercise of the Options.

Lincoln Educational Services

Management Stock Option Plan

Exhibit 10.15

Form of

STOCK OPTION AGREEMENT dated as of January 1, 2002 between LINCOLN TECHNICAL INSTITUTE, INC., a New Jersey corporation (the "*Company*"), and the other party signatory hereto (the "*Participant*").

WHEREAS, the Participant is currently a key employee of the Company or one of its subsidiaries and, pursuant to the Company's Management Stock Option Plan (the "*Plan*") and upon the terms and subject to the conditions hereinafter set forth, the Company desires to provide the Participant with an incentive to remain in its employ or the employ of one of its subsidiaries and to increase his interest in the success of the Company by granting to the Participant incentive stock options pursuant to Section 422 of the Code (the " *Options*") to purchase shares of common stock, no par value per share, of the Company (the "*Common Stock*");

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

1. Definitions; Incorporation of Plan Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan, a copy of which is attached hereto. This Agreement, the Options and the shares of Common Stock issued pursuant to the exercise of Options (the "*Option Shares*") shall be subject to the Plan, the terms of which are hereby incorporated herein by reference, and in the event of any conflict or inconsistency between the Plan and this Agreement, the Plan shall govern. The date of grant with respect to the Options shall be the date specified at the foot of the signature page hereof.

2. Management Stockholders Agreement; Certain Restrictions . In accordance with Section 6(g) of the Plan, the Participant and the Company hereby confirm that, effective as of the date hereof, the Participant shall, for purposes of the Management Stockholders Agreement (as defined in Section 4 below), be deemed to be a "Stockholder" with respect to the Options and the Option Shares and the Participant agrees to be bound by all the terms of the Management Stockholders Agreement applicable to such a Stockholder. None of the Option Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of to any third party other than the Company except as provided in the Management Stockholders Agreement or the Plan. None of the Options may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of, except by will or the laws of descent and distribution. During the Participant's lifetime, an Option shall be exercisable only by the Participant. Each Permitted Transferee (other than the Company) of any Option or Option Share shall, as a condition to the transfer thereof, execute an agreement pursuant to which it shall become a party to the Management Stockholders Agreement and this Agreement.

3. Grant of Options. Subject to the terms and conditions contained herein and in the Plan, the Company hereby grants to the Participant, effective as of the date of grant, the number of Service Options and/or Performance Options specified at the foot of the signature page hereof. Each such Option shall entitle the Participant to purchase, upon payment of the Option Price specified at the foot of the signature page hereof, one share of Common Stock. The Options are intended to qualify as incentive stock options under Section 422 of the Code. Nonetheless, if the Option is determined not to be an incentive stock option, the Participant

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understands that neither the Company nor any of its subsidiaries is responsible to compensate him or her or otherwise make up for the treatment of the Option as a non qualified stock option and not as an incentive stock option. The Participant should consult with his or her own tax advisors regarding the tax effects of the Option and the requirements necessary to obtain favorable tax treatment under Section 422 of the Code, including, but not limited to, any holding period requirements. The Options shall be exercisable as hereinafter provided.

4. Terms and Conditions of Options. The Options evidenced hereby are subject to the following terms and conditions:

(a) Duration of Options. The period for which these Options are effective shall commence upon the date hereof and shall continue until these Options are terminated as hereinafter provided (the " *Option Period*"). Except as otherwise expressly provided in this Section 4(a) hereof, the Options (whether or not exercisable) shall terminate and be forfeited without payment immediately upon an Employee's ceasing to be an employee of the Company or any of its subsidiaries. The Option Period of these Options shall terminate upon, and the Options shall not be exercisable following, the earliest to occur of (1) the tenth anniversary of the date hereof and (2) the following dates:

(i) the six-month anniversary of the date upon which the Participant holding such Option ceases to be an employee of the Company or its subsidiaries by reason of death;

(ii) unless otherwise specifically provided in any agreement between the Participant and the Company or one of its subsidiaries, the thirty-day anniversary of the date of the Retirement or Disability (as such terms are defined in the Management Stockholders Agreement) of the Participant if the Participant retires or is disabled while an employee of the Company or any of its subsidiaries, or the thirty-day anniversary of the date of Involuntary Termination (as defined in the Management Stockholders Agreement) of the Participant; *provided*, *however*, that in the event of a Participant's termination of employment due to Retirement, Disability or Involuntary Termination, Performance Options shall terminate on the thirty-day anniversary of the later of (A) such termination of employment and (B) April 15th of the year in which such termination of employment occurred; or

(iii) immediately upon a Participant's Voluntary Resignation (as defined in the Management Stockholders Agreement) or termination of employment with the Company or any of its subsidiaries for Cause (as defined in the Management Stockholders Agreement).

(b) Exercisability and Vesting of Options. Options granted hereunder have been designated Service Options or Performance Options.

Options shall become exercisable pursuant to the following terms and (except as otherwise expressly provided for hereunder or in any agreement between the Company and the Participant) only if the Employee is an employee of the Company or any of its subsidiaries (as determined pursuant to Section 10 of the Plan) on the date on which such Option becomes

exercisable. An Option (or portion thereof) which becomes exercisable pursuant to the terms of this Section 4(b) is referred to as a "*Vested Option*."

(i) Except as the Board of Directors or the Committee may otherwise determine, Service Options shall vest and become exercisable with respect to 20% of the Option Shares on the date of grant, and with respect to an additional 20% of the Option Shares as of each of the first, second, third and fourth anniversaries of the date of grant; *provided* that the Employee remains in the employ of the Company or any of its subsidiaries (as determined pursuant to Section 10 of the Plan); and *provided*, *further* that in the event of a Change in Control of the Company all outstanding unvested Service Options held by Participants shall become fully vested and immediately exercisable on the effective date of such Change in Control.

(ii) Except as the Board of Directors or the Committee may otherwise determine, Performance Options shall vest and become exercisable at a rate of up to 20% per year subject to the achievement of predetermined EBITDA Value (as defined in Schedule I of the Plan) targets for each fiscal year of the Company beginning with the fiscal year ending December 31, 2002 (the "*Target EBITDA Values*"), or the achievement of cumulative EBITDA Value targets (the "*Cumulative Target EBITDA Values*"); *provided* that the Participant (A) remains in the employ of the Company or any of its subsidiaries (As determined pursuant to Section 10 of the Plan), or (B) is no longer in the employ of the Company or any of its subsidiaries due to an Involuntary Termination which occurred after the last day of the fiscal year of the Company. The Target EBITDA Values and the Cumulative Target EBITDA Values for a grant of Performance Options shall be established prior to the relevant date of grant. If the Target EBITDA Value for a fiscal year is not achieved, none of the Performance Options subject to vesting for such fiscal year shall become exercisable and such Performance Options shall instead remain eligible to vest and become exercisable if and when the applicable Cumulative Target EBITDA Value is achieved; *provided*, *further*, that in the event of a Change in Control of the Company all outstanding unvested Performance Options held by Participants shall become fully vested and immediately exercisable on the effective date of such Change in Control and *provided*, *further*, that in the event of an IPO (as defined in the Management Stockholders Agreement) Performance Options not yet vested will no longer become exercisable in accordance with this Section 4(b)(ii) and will vest and become exercisable as if they were Service Options, in the same manner as determined under clause (i) of this Section 4(b).

Subject to Sections 8 and 11 of the Plan, the Target EBITDA Values and the Cumulative Target EBITDA Values as established pursuant to the Plan, shall be adjusted as determined by the Board in good faith if there has been a disposition of assets representing a substantial portion of the consolidated assets of the Company, an acquisition of assets representing a substantial portion of the consolidated assets of the Company, a recapitalization or merger of the Company, or other extraordinary transaction in the preceding four quarters.

(c) Procedure for Exercise and Payment for Shares. Exercise of these Options shall be made by the Participant's giving written notice to the Company. Such written notice shall be deemed sufficient for this purpose only if it (i) is delivered to the Company at its principal offices, (ii) states the number of Option Shares with respect to which the Option is being exercised, and (iii) states the date, no earlier than the fifth business day after, and no later than the tenth business day after, the date of such notice, upon which the Option Shares shall be purchased and payment therefor shall be made. The payments for Option Shares purchased pursuant to exercise of these Options shall be made at the principal offices of the Company. Upon (x) the exercise of any Option, in compliance with the provisions of this Section 4(c), (y) receipt by the Company of the payment for the Option Shares so purchased together with cash in the amount of (or the making of arrangements referred to in Section 13 of the Plan with respect to) any taxes required to be collected or withheld as a result of the exercise of this Option, and (z) receipt by the Company of an executed copy of the Management Stockholders Agreement (unless such Participant is already a party thereto or the Company receives such other evidence as the Company may reasonably require to ensure that the Option Shares issuable upon exercise of the Option will be subject to the Management Stockholders Agreement), the Company shall deliver or cause to be delivered to the Participant so exercising an Option a certificate or certificates for the number of Option Shares with respect to which these Options are exercised and payment is made. The Option Shares shall be registered in the name of the exercising Participant; *provided* that in no event shall any Option Shares be issued pursuant to exercise of an Option until full Payment therefor shall have been made in one of the manners set forth below; and *provided*, *further*, that until such payment has been made, the exercising Participant shall have no rights of a shareholder. For purposes of this paragraph, the date of issuance shall be the date upon which payment in full has been received by the Company as provided herein. The exercise price shall be payable at the election of the Participant, in whole or in part, in any one or a combination of cash or Mature Common Stock (as defined below) valued at the Fair Value Price as of the date the notice of exercise is given. "*Mature Common Stock*" is defined as shares of Common Stock held by such Participant for more than six months.

(d) Cash-Out of Certain Options.

(i) Without limiting any rights of the Company under the Management Stockholders Agreement, the Board or the Committee may in its sole discretion cancel the vested portion of any Option or Options held by a person who is at such time no longer an employee of the Company or its subsidiaries in exchange for a cash payment equal to the excess of (x) the Fair Value Price of the Option Shares subject to such Vested Option, over (y) the Option Price for such Option Shares, multiplied by the number of Option Shares subject to such cancelled Options; *provided*, *however*, that the exercise of the right of the Board or the Committee hereunder shall not be made in contemplation of a Change in Control or an IPO.

(ii) Without limiting any rights of the Company under the Management Stockholders Agreement, the Board or the Committee may cancel

any outstanding Options in exchange for a cash payment, or in the discretion of the Board or the Committee, payment of other property, to the Participant equal to the excess of (x) the fair market value (as determined in good faith by the Board) of the consideration received per Stonington Share (as defined in the Management Stockholders Agreement) by Stonington in any sale (by merger, stock purchase or otherwise) to a person which is not an Affiliate of the Company or Stonington of all the then issued and outstanding Stonington Shares (a "*Transfer Event*"), over (y) the Option Price for such Option Shares, multiplied by the number of Option Shares subject to such cancelled Options, in each case effective upon the consummation of the Transfer Event.

(e) Stockholder Rights. The Participant shall have no rights as a stockholder with respect to any Option Shares until such Participant shall have exercised the related Options and until a certificate or certificates evidencing such shares shall have been issued to the Participant, and no adjustment shall be made for dividends or distributions or other rights in respect of any share for which the record date is prior to the date upon which the Participant shall become the holder of record thereof.

(f) Dividends and Distributions. Any shares of Common Stock or other securities of the Company received by the Participant as a result of a stock distribution to holders of Option Shares, as a stock dividend on Option Shares or pursuant to a similar transaction shall be subject to the same restrictions as such Option Shares, and all references to Option Shares hereunder shall be deemed to include such shares of Common Stock or other securities.

5. Requirements of Law and of Certain Agreements. If any law or any regulation of any commission or agency of competent jurisdiction shall require the Company or the exercising Participant to take any action with respect to any Option Shares, then the date upon which the Company shall issue or cause to be issued the certificate or certificates for such Option Shares shall be postponed until full compliance has been made with all such requirements of law or regulation, *provided* that the Company shall use reasonable efforts to take all necessary action to comply with such requirements of law or regulation. Further, if requested by the Company, at or before the time of the issuance of such Option Shares, the Participant shall deliver to the Company his or her written statements satisfactory in form and content to the Company, that he or she intends to hold the Option Shares so acquired by him or her for investment and not with a view to resale or other distribution thereof to the public in violation of the Securities Act or any applicable state securities or "blue sky" law. Moreover, in the event that the Company shall determine in its sole discretion that, in compliance with the Securities Act or any applicable state securities or "blue sky" law, it is necessary to register any of the Option Shares, or to qualify any such Option Shares for exemption from any of the requirements of the Securities Act or any other applicable statute or regulation, no Options may be exercised until the required action has been completed; *provided* that the Company shall use reasonable efforts to take all necessary action to comply with such requirements of law or regulation. All Option Shares shall bear the legends provided for in the Management Stockholders Agreement.

6. Dispositions of Common Stock. If the Participant makes a disposition, within the meaning of Section 424(c) of the Code and the regulations promulgated thereunder, of

any share of Common Stock issued to the Participant in connection with the exercise of an Option within the two-year period commencing on the day after the date of grant or within the one-year period commencing on the day after the date of transfer of such share of Common Stock to the Participant pursuant to such exercise, the Participant shall, within ten days of such disposition, notify the Company thereof, by delivery of written notice to the Company at its principal executive office by one of the methods described in Section 11 of this Agreement.

7. $100,000 Limitation. With respect to Options granted to the Participant under the Plan, if the aggregate fair market value (determined as of the date the Option is granted) of the number of shares with respect to which Options are exercisable for the first time by the Participant during any calendar year under all plans of the Company or a subsidiary exceeds one hundred thousand dollars ($100,000) or such other limit as may be required by the Code, such Options shall be treated, to the extent of such excess, as non-qualified stock options.

8. Miscellaneous.

(a) No Rights to Grants or Continued Employment. The Participant shall not have any claim or right to receive grants of Options under the Plan. Neither the Plan nor this Agreement nor any action taken or omitted to be taken hereunder or thereunder shall be deemed to create or confer on the Participant any right to be retained in the employ of the Company or any of its subsidiaries, or to interfere with or to limit in any way the right of the Company or any of its subsidiaries to terminate the employment of the Participant at any time.

(b) Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of the Participant for Federal income tax purposes with respect to Option Shares acquired pursuant to the exercise of any Option hereunder, such Participant shall pay to the Company, or make arrangements reasonably satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount; *provided*, *however*, that such arrangements need not involve the advancement by the Company of any funds to, for or on behalf of any Participant or the incurrence or payment by the Company of any costs or expenses. With the approval of the

Committee, a Participant may satisfy the foregoing requirements by electing to have the Company withhold from delivery shares of Common Stock having a value equal to the amount of tax to be withheld (but not in excess of the Company's minimum statutory withholding). The obligations of the Company hereunder shall be conditional on such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant.

(c) No Restriction on Right of Company to Effect Corporate Changes. Neither the Plan nor this Agreement shall affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital structure or business of the Company, or any merger or consolidation of the Company, or any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part

of the assets or business of the Company, or any other corporate act or proceeding, whether of a similar character or otherwise.

(d) 1934 Act. Notwithstanding anything contained in the Plan or this Agreement to the contrary, if the consummation of any transaction under the Plan or this Agreement would result in the possible imposition of liability to the Participant pursuant to Section 16(b) of the 1934 Act, the Board of Directors or the Committee shall have the right, in its sole discretion, but shall not be obligated, to defer such transaction to the extent necessary to avoid such liability, but in no event for a period in excess of 180 days.

9. Survival; Assignment.

(a) All agreements, representations and warranties made herein and in any certificates delivered pursuant hereto shall survive the issuance to the Participant of the Options and the Option Shares and, notwithstanding any investigation heretofore or hereafter made by the Participant or the Company or on the Participant's or the Company's behalf, shall continue in full force and effect. Without the prior written consent of the Company, the Participant may not assign any of his rights hereunder except by will or the laws of descent and distribution. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the heirs and permitted successors and assigns of such party; and all agreements herein by or on behalf of the Company, or by or on behalf of the Participant, shall bind and inure to the benefit of the heirs and permitted successors and assigns of such parties hereto.

(b) The Company shall have the right to assign to any of its affiliates any of its rights, or to delegate to any of its affiliates any of its obligations, under this Agreement.

10. Certain Remedies. Without intending to limit the remedies available to the Company, the Participant agrees that damages at law will be an insufficient remedy in the event the Participant violates the terms of this Agreement. The Participant agrees that the Company may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of the provisions hereof.

11. Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed. All such notices shall be conclusively deemed to be received and shall be effective, if sent by hand delivery, upon receipt, or if sent by registered or certified mail, on the fifth day after the day on which such notice is mailed:

(a) if to the Participant, to his attention at the mailing address set forth at the foot of this Agreement;

(b) if to the Company, to it at the following address:

Lincoln Technical Institute, Inc.
200 Executive Drive
West Orange, NJ 07052

Telecopy: (973) 243-0841
Attention: President

with a copy to:

Stonington Partners, Inc.
767 Fifth Avenue, 48th Floor
New York, New York 10153
Attention: James J. Burke, Jr.

and a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Attention: John J. Cannon, III, Esq.

or at such other address as the parties hereto shall have specified by notice in writing to the other parties.

12. Waiver. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

13. Entire Agreement; Governing Law. This Agreement and the other related agreements expressly referred to herein set forth the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same agreement. The headings of sections and subsections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of this Agreement. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York without regard to the choice of law principles thereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Participant has executed this Agreement, both as of the day and year first above written.

LINCOLN TECHNICAL INSTITUTE, INC.

By: ______________________________
Name: David F. Carney
Title: Chairman and CEO

PARTICIPANT

By: ______________________________
Name:
Address:

Number of Performance Options:

Number of Service Options:

Option Price: **$3.10**

Date of Grant: **January 1, 2002**

Exhibit 10.16

MANAGEMENT STOCK SUBSCRIPTION AGREEMENT

By and Among

LINCOLN TECHNICAL INSTITUTE, INC.

And

THE MANAGEMENT INVESTORS LISTED IN SCHEDULE I

Dated as of January 1, 2002

<u>MANAGEMENT STOCK SUBSCRIPTION AGREEMENT</u>

MANAGEMENT STOCK SUBSCRIPTION AGREEMENT (the "<u>Agreement</u>"), dated as of January 1, 2002, by and among Lincoln Technical Institute, Inc., a New Jersey corporation, (the "<u>Company</u>"), and the persons listed in Schedule I hereto, as such Schedule I may be amended from time to time (collectively, the "<u>Management Investors</u>" and each individually, a "<u>Management Investor</u>").

<u>W I T N E S S E T H</u>:

WHEREAS, pursuant to a Stock and Asset Purchase Agreement dated as of April 26, 1999 (the " <u>Recapitalization Agreement</u>"), the Company was recapitalized on behalf of Back to School Acquisition, L.L.C., a Delaware limited liability corporation (" <u>Stonington</u>");

WHEREAS, the Company was formed on behalf of Stonington Capital Appreciation 1994 Fund, L.P. (" <u>Stonington</u>");

WHEREAS, pursuant to the terms and subject to the conditions set forth in this Agreement, each Management Investor desires to subscribe for and purchase, and the Company desires to issue and sell to such Management Investor, the number of Management Shares (as hereinafter defined) set forth opposite such Management Investor's name in Column A of Schedule I hereto. The aggregate purchase price to be paid for the Management Shares to be acquired by each Management Investor is set forth opposite such Management Investor's name in Column B of Schedule I hereto (such Management Investor's "<u>Purchase Price</u>");

WHEREAS, capitalized terms used in this Agreement and not otherwise defined shall have the meanings ascribed to them in Article I hereof;

NOW, THEREFORE, in order to implement the foregoing and in consideration of the mutual representations, warranties, covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the meanings ascribed to them below:

<u>Closing</u>. The term "Closing" shall have the meaning specified in Section 2.2 hereof.

<u>Closing Date</u>. The term "Closing Date" shall have the meaning specified in Section 2.2 hereof.

Collateral Agreements. The term “Collateral Agreements” means the Stockholders Agreement, the Recapitalization Agreement, the Management Stock Option Plan, the Management Notes, the Pledge Agreements and the Stock Option Agreements.

Exchange Act. The term “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute then in effect, and a reference to a particular section thereof shall be deemed to include a reference to the comparable section, if any, of such similar federal statute.

Management Notes. The term “Management Notes” shall mean the Management Notes, dated the date hereof, between each of the Management Investors and the Company.

Management Shares. The term “Management Shares” shall mean Shares purchased by a Management Investor from the Company in exchange for cash, and, if applicable a promissory note, or pursuant to the exercise of an option granted under the Management Stock Option Plan.

Management Stock Option Plan. The “Management Stock Option Plan” shall mean the stock option plan of the Company, effective January 1, 2002.

Pledge Agreements. The term “Pledge Agreements” shall mean the Pledge Agreements, dated the date hereof, between each of the Management Investors and the Company.

Private Placement Memorandum. The term “Private Placement Memorandum” shall mean the Private Placement Memorandum, as amended or supplemented on the Closing Date, pursuant to which the Company offered the Shares to the Management Investors.

Rule 144. The term “Rule 144” shall have the meaning specified in Section 3.3 hereof.

SEC. The term “SEC” shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

Securities Act. The term “Securities Act” shall mean the Securities Act of 1933, as amended, or any similar federal statute then in effect, and a reference to a particular section thereof shall be deemed to include a reference to the comparable section, if any, of any such similar federal statute.

Shares. The term “Shares” shall mean any shares of common stock, no par value, of the Company, including, without limitation, all Shares issued in connection with any employee benefit plan of the Company or its subsidiaries, including the Management Stock Option Plan.

Stock Option Agreements. The term “Stock Option Agreements” shall mean the agreements pursuant to which options are granted pursuant to the Management Stock Option Plan.

Stockholders Agreement. The term “Stockholders Agreement” shall have the meaning specified in Section 2.2(c) hereof.

ARTICLE II

SUBSCRIPTION FOR AND ISSUANCE OF SHARES

Section 2.1 Subscription for and Issuance of Shares. Pursuant to the terms and subject to the conditions set forth in this Agreement, each Management Investor hereby subscribes for and agrees to purchase, and the Company hereby agrees to issue and sell to each Management Investor on the Closing Date the number of Management Shares set forth opposite such Management Investor’s name in Column A of Schedule I hereto at a purchase price of $3.10 per Management Share. Each Management Investor shall pay the Purchase Price set forth opposite such Management Investor’s name in Column B of Schedule I hereto.

Section 2.2 The Closing. The closing (the “Closing”) of the transactions contemplated by this Article II shall take place at the offices of Shearman & Sterling, 599 Lexington Avenue, New York, New York, on March 18, 2002. The date of such closing is hereinafter referred to as the “Closing Date.”

(a) At the Closing the Company shall have delivered to each Management Investor, against delivery of the Purchase Price set forth opposite such Management Investor’s name in Column B of Schedule I hereto, duly issued stock certificates representing the number of Management Shares set forth opposite such Management Investor’s name in Column A of Schedule I hereto.

(b) By 5:00 p.m. U.S. Eastern Standard Time of the third day prior to the Closing, each Management Investor shall have delivered to the Company, against delivery to the Management Investor of stock certificates representing the Management Shares to be purchased by such Management Investor, a combination of cash and Management Notes in the amount equal to such Management Investor’s Purchase Price set forth opposite such Management Investor’s name in Column B of Schedule I hereto.

(c) At the Closing, the Company, Stonington, the Management Investors will enter into the Stockholders Agreement, substantially in the form attached as Exhibit A hereto (the “Stockholders Agreement”).

(d) At the Closing, the Management Investors and the Company shall enter into the Pledge Agreements in the form attached as Exhibit B hereto.

Section 2.3 Representations, Warranties and Covenants of the Management Investors. Each of the Management Investors severally, but not jointly, represents and warrants to the Company and covenants with the Company as follows:

(i) such Management Investor has full right, power and authority to execute and deliver this Agreement, and to perform such Management Investor’s obligations hereunder, and this Agreement has been duly authorized, executed and delivered by such

Management Investor and is valid, binding and enforceable against such Management Investor in accordance with its terms;

(ii) such Management Investor has full right, power and authority to execute and deliver the Stockholders Agreement, his Management Note and his Pledge Agreement and to perform the obligations thereunder and each of the Stockholders Agreement, the Management Note and the Pledge Agreement has been duly authorized by such Management Investor and will, when executed and delivered by such Management Investor, be valid, binding and enforceable against such Management Investor in accordance with its terms; and

(iii) none of the execution, delivery and performance of this Agreement, the Stockholders Agreement, the Management Note and the Pledge Agreement by such Management Investor will conflict with or result in any material breach of any terms or provisions of, or constitute a default under, any material contract, agreement or instrument to which such Management Investor is a party or by which such Management Investor is bound.

Section 2.4 Representations, Warranties and Covenants of the Company. The Company represents and warrants to each of the Management Investors as follows:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey;

(ii) the Company has full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and this Agreement has been duly authorized, executed and delivered by the Company and is valid, binding and enforceable against the Company in accordance with its terms;

(iii) the Company has full corporate power and authority to execute and deliver the Stockholders Agreement, and the Pledge Agreements and to perform its obligations thereunder and each such agreement has been duly authorized by the Company and will, when executed and delivered by the Company, be valid, binding and enforceable against the Company in accordance with its terms;

(iv) the Management Shares to be issued to such Management Investor pursuant to this Agreement, when issued and delivered in accordance with the terms hereof, will be duly and validly issued and, upon receipt of cash or other consideration in an amount equal to the par value of such Shares, will be fully paid and nonassessable;

(v) none of the execution, delivery and performance of this Agreement, the Stockholders Agreement, or the Pledge Agreements by the Company will conflict with the Company’s Certificate of Incorporation or By-Laws or result in any material breach of any terms or provisions of, or constitute a default under, any material contract, agreement or instrument to which the Company is a party or by which the Company is bound;

(vi) after giving effect to the transactions contemplated by this Agreement, the authorized capital of the Company will consist of 50,000,000 authorized Shares. Up to 2,087,835 of such Shares will have been reserved for issuance under the Management Stock Option Plan. Immediately after the Closing, the ownership of the Shares by all stockholders of the Company shall be as set forth in Schedule II of this Agreement and the Management Investors and certain other employees will own 1.7% (on a fully diluted basis) of the voting capital stock of the Company. All of the outstanding Shares will be duly authorized, and upon the issuance thereof will be validly issued, fully paid and nonassessable;

(vii) except for options under the Management Stock Option Plan for the purchase of up to 2,087,835 Shares and otherwise set forth in the Management Stock Option Plan and the Stockholders Agreement, and a option held by Steven Hart for the purchase of up to 161,500 Shares, the Company (x) has no outstanding stock or securities convertible into or exchangeable for any shares of capital stock, or any rights or any options for the purchase of, or any agreements providing for the issue (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any capital stock or any stock or securities convertible into or exchangeable for any capital stock and is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of capital stock or any convertible securities, rights or options of the type described in the foregoing clause (x).

ARTICLE III

INVESTMENT REPRESENTATIONS OF THE MANAGEMENT INVESTORS

Section 3.1 Investment Intention; No Resales. Each Management Investor represents and warrants that such Management Investor is acquiring his or her Management Shares for investment, solely for his or her own account and not with a view to, or for resale in connection with, the distribution or other disposition thereof or with any present intention of distributing or reselling any Management Shares thereof, except for such distributions and dispositions permitted under the Stockholders Agreement and effected in compliance with the Securities Act and the rules and regulations thereunder and all applicable state securities, or “blue sky”, laws. Each Management Investor agrees and acknowledges that such Management Investor will not, directly or indirectly, offer, transfer, sell, assign, pledge, hypothecate or otherwise dispose of any Management Shares, or solicit any offers to purchase or otherwise acquire or take a pledge of any Management Shares, other than transfers, sales, assignments, pledges, hypothecations or other dispositions explicitly permitted by the Stockholders Agreement.

Section 3.2 Legend. Each certificate representing Management Shares shall bear the legend set forth in Section 2.5 of the Stockholders Agreement.

Section 3.3 Stock Unregistered. Each Management Investor acknowledges and represents that such Management Investor has been advised that (a) the Management Shares have not been registered under the Securities Act; (b) the Management Shares must be held indefinitely and such Management Investor must continue to bear the economic risk of the investment in the Management Shares unless they are subsequently registered under the Securities Act or an exemption from such registration is available; (c) it is not anticipated that there will be any public market for the Management Shares; (d) Rule 144 promulgated under the Securities Act (" Rule 144") is not currently available with respect to the sales of any securities of the Company, and the Company has made no covenant to make such rule available; (e) if and when the Management Shares may be disposed of without registration in reliance on Rule 144, such disposition can be made only in limited amounts in accordance with the terms and conditions of such rule; (f) if the Rule 144 exemption is not available, public offer or sale without registration will require the availability of an exemption under the Securities Act; (g) a restrictive legend in the form set forth in the Stockholders Agreement shall be placed on the certificates representing the Management Shares; and (h) a notation shall be made in the appropriate records of the Company indicating that the Management Shares are subject to restrictions on transfer and, if the Company should at some time in the future engage the services of a securities transfer agent, appropriate stop-transfer instructions will be issued to such transfer agent with respect to the Management Shares.

Section 3.4 Rule 144. If any Management Shares are disposed of in accordance with Rule 144 or any similar or successor rule or regulation, each Management Investor disposing of Management Shares shall deliver to the Company at or prior to the time of such disposition an executed copy of Form 144 (if required by Rule 144) or of such other form or forms required by any such similar or successor rule or regulation and such other documentation as the Company may require in connection with such disposition. Notwithstanding anything to the contrary contained in this Section 3.4, the Company may deregister any of its securities under Section 12 of the Exchange Act if it is then permitted to do so pursuant to the Exchange Act and the rules and regulations in effect thereunder.

Section 3.5 Additional Investment Representations. Each Management Investor represents and warrants that (a) such Management Investor's financial situation is such that such Management Investor can afford to bear the economic risk of holding the Shares for an indefinite period of time and suffer complete loss of such Management Investor's investment in the Shares; (b) such Management Investor's knowledge and experience in financial and business matters are such that such Management Investor is capable of evaluating the merits and risks of such Management Investor's investment in the Shares, or such Management Investor has been advised by a purchaser representative (as such term is defined in Rule 501 (n) of the General Rules and Regulations promulgated under the Securities Act) possessing such knowledge and experience; (c) such Management Investor understands that the Shares are a speculative investment which involve a high degree of risk of loss of such Management Investor's investment therein, that there are substantial restrictions on the transferability of the Shares and that on the Closing Date and for an indefinite period following the Closing there will be no public market for the Shares and, accordingly, it may not be possible to liquidate such Management Investor's investment in the Company in case of emergency, if at all; (d) in making such Management Investor's decision to invest in the Shares hereunder, such Management Investor has relied upon independent investigations made by such Management Investor and, to the extent believed by such Management Investor to be appropriate, such Management Investor's representatives, including such Management Investor's own professional, tax and other advisors; (e) such Management Investor and such Management Investor's representatives have been given the opportunity to examine all documents and to ask questions of, and to receive answers from, the Company and its representatives concerning the terms and conditions of the investment in the Shares, and no representations have been made to such Management Investor or such representatives concerning the Management Shares, the Company, its subsidiaries, their business or prospects or other matters; and (f) such Management Investor is an officer or key employee of the Company or one or more of its subsidiaries.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Binding Effect. The provisions of this Agreement shall be binding upon the parties hereto and their respective heirs, legal representatives, successors and assigns.

Section 4.2 No Right of Employment. Neither this Agreement nor any purchase or sale of Management Shares pursuant hereto shall create, or be construed or deemed to create, any right of employment in favor of any Management Investor or any other person by the Company or any of its subsidiaries.

Section 4.3 Recapitalizations, Exchanges, Etc. Affecting Shares . The provisions of this Agreement regarding Shares shall apply to any and all shares of capital stock of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets, reorganization or otherwise) which may be issued in respect of, in exchange for, or in substitution of the Shares by reason of any stock dividend, stock split, stock issuance, reverse stock split, combination, recapitalization, reclassification, merger, consolidation or otherwise. Subject only to the provisions of the preceding sentence, nothing contained in this Agreement shall prohibit or restrict the Company from taking any corporate action, including, without limitation, declaring any dividend (whether in cash or stock) or engaging in any corporate transaction of any kind, including, without limitation, any merger, consolidation, liquidation or sale of assets.

Section 4.4 Waiver and Amendment. Any party hereto may waive its rights under this Agreement at any time, and no such waiver shall operate to waive the Company’s rights under this Agreement with respect to any other Management Investor. Any agreement on the part of any such party to any such waiver shall be valid only if set forth in an instrument in writing signed by such party. This Agreement may be amended only by a written instrument signed by the Company, and by Management Investors owning a majority of the then outstanding Management Shares.

Section 4.5 Notices. All notices and other communications provided for herein shall be dated and in writing and shall be deemed to have been duly given when delivered, if delivered personally, or when deposited in the mail if sent by registered or certified mail, return receipt requested, postage prepaid and when received if delivered otherwise, to the party to whom it is directed:

(a) If to the Company, to it at the following address:

Lincoln Technical Institute, Inc.
c/o Stonington Partners, Inc.
767 Fifth Avenue, 48th Floor
New York, New York 10153
Attention: James J. Burke, Jr.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Attention: John J. Cannon, III, Esq.

(b) If to any of the Management Investors, to such Management Investor at the address set forth below under such Management Investor's signature;

or at such other address as the parties hereto shall have specified by notice in writing to the other parties.

Section 4.6 Applicable Law. The laws of the State of New York without reference to the choice of law principles thereof shall govern the interpretation, validity and performance of the terms of this Agreement, regardless of the law that might be applied under principles of conflicts of law.

Section 4.7 Integration. This Agreement and the documents referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein and in the Collateral Agreements. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter other than such agreements and understandings set forth in the Collateral Agreements.

Section 4.8 Descriptive Headings, Etc. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of terms contained herein. Unless the context of this Agreement otherwise requires, (i) words of any gender shall be deemed to include each other gender; (ii) words using the singular or plural number shall also include the plural or singular number, respectively; and (iii) references to "hereof," "herein," "hereby" and similar terms shall refer to this entire Agreement.

Section 4.9 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

Section 4.10 Expenses. The Company shall pay the legal fees and the expenses of the Management Investors reasonably incurred in connection with the preparation and negotiation of this Agreement; provided that the Company shall not be obligated pursuant to this Agreement to pay the fees and expenses of more than one counsel for all of the Management Investors.

Section 4.11 Severability. In the event that any one or more of the provisions, paragraphs, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, paragraph, word, clause, phrase or sentence in every other respect and of the other remaining provisions, paragraphs, words, clauses, phrases or sentences hereof shall not be in any way impaired, it being intended that all rights, powers and privileges of the parties hereto shall he enforceable to the fullest extent permitted by law.

Section 4.12 Further Assurances. The parties hereto shall from time to time execute and deliver all such further documents and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

Section 4.13 Waiver of Jury Trial. Each of the Company and the Management Investors hereby irrevocably waives all right to a trial by jury in any action, proceeding or counterclaim, arising out of or relating to this Agreement or the transactions contemplated hereby.

Section 4.14 Survival of Covenants. The Company and the Management Investors hereby agree that the applicable provisions of this Agreement, including without limitation, Sections 2.3 and 2.4, shall survive and remain in full force and effect following the Closing.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LINCOLN TECHNICAL INSTITUTE, INC.

By: /s/ Alexandra Tsamultalis
Alexandra Tsamultalis
Assistant Secretary

/s/ David F. Carney

Name: David F. Carney
Address: 14 Stuyvesant Road
Montvale, NJ 07645

/s/ Miryam Knutson

Name: Miryam Knutson
Address: 5023 Frew Avenue, Apt 8B
Pittsburgh, PA 15213

/s/ Lawrence E. Brown

Name: Lawrence E. Brown
Address: 59 Redner Road
Morristown, NJ 07960

/s/ Scott M. Shaw

Name: Scott M. Shaw
Address: 126 Tower Hill Road
Tuxedo Park, NY 10987

/s/ Jerry Rubenstein

Name: Jerry Rubenstein
Address: 223 Glenmoor Road
Gladwyne, PA 19035

/s/ Keiko Shimada

Name: Keiko Shimada
Address: 57 Laura Lane
Park Ridge, NJ 07656-1905

/s/ Leroy Keith

Name: Leroy Keith
Address: 736 Market Street, Suite 1340
Chattanooga, TN 37402-4809

Schedule I

Management Investor	Number of Management Shares A		Purchase Price B
Miryam Knutson	115,400	$	357,740.00
David F. Carney	115,288	$	357,392.80
Lawrence E. Brown	65,626	$	203,440.60
Scott M. Shaw	65,626	$	203,440.60
Total	361,940	$	1,122,014.00

Schedule II

Equity Ownership of the Company
(as of the day following the Closing)

Shareholder	**Number of Shares**	**Number of Adjusted Shares***
Back To School Acquisition, LLC	18,165,500	18,165,500
Five Mile River Capital Partners LLC	3,132,100	3,132,100
Stephen Hart	0	161,500
Miryam Knutson	115,400	150,020
David F. Carney	115,288	517,738
Lawrence E. Brown	65,626	306,526
Scott M. Shaw	65,626	301,126
Other Management	0	1,174,365
TOTAL	21,659,540	23,908,875

Schedule I

* Assumes that all options granted under the Stock Option Plan immediately after the Closing (whether or not then exercisable) are exercised in full.

Exhibit 21.1

Subsidiaries of Registrant

The following is a list of Lincoln Educational Services Corporation's subsidiaries:

Name	Jurisdiction
• Lincoln Technical Institute, Inc. (wholly owned)	New Jersey
• New England Acquisition LLC (wholly owned)	Delaware
• Southwestern Acquisition LLC (wholly owned)	Delaware
• Nashville Acquisition, LLC (wholly owned through Lincoln Technical Institute, Inc.)	Delaware
• ComTech Services Group Inc. (wholly owned through Lincoln Technical Institute, Inc.)	New Jersey

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Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Lincoln Educational Services Corporation
West Orange, New Jersey

We consent to the use in this Registration Statement of Lincoln Educational Services Corporation on Form S-1 of our report dated March 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph related to a change in accounting method for stock based compensation) appearing in the Prospectus, which is a part of this Registration Statement, and to the references to us under the heading "Experts" in such Prospectus.

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 29, 2005

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