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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from _____ to _____

Commission File Number 000-51371

LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

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

57-1150621
(IRS Employer Identification No.)

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

07052
(Zip Code)

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

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

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

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

Large accelerated filer ☐
Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☒
Emerging growth company ☐

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

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

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

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

As of May 11, 2020, there were 26,364,521 shares of the registrant’s common stock outstanding.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2020

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,741	$ 23,644
Accounts receivable, less allowance of $19,687 and $18,107 at March 31, 2020 and December 31, 2019, respectively	26,504	20,652
Inventories	1,835	1,608
Prepaid income taxes and income taxes receivable	312	383
Prepaid expenses and other current assets	4,100	4,190
Total current assets	42,492	50,477
PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of $173,483 and $172,408 at March 31, 2020 and December 31, 2019, respectively	49,367	49,345
OTHER ASSETS:		
Noncurrent restricted cash	-	15,000
Noncurrent receivables, less allowance of $2,555 and $2,260 at March 31, 2020 and December 31, 2019, respectively	14,769	15,337
Operating lease right-of-use assets	47,088	49,065
Goodwill	14,536	14,536
Other assets, net	999	1,003
Total other assets	77,392	94,941
TOTAL ASSETS	$ 169,251	$ 194,763

See notes to unaudited condensed consolidated financial statements.

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

	March 31, 2020	December 31, 2019
LIABILITIES, SERIES A CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of credit agreement	$ 2,000	$ 2,000
Unearned tuition	18,284	23,411
Accounts payable	12,699	14,584
Accrued expenses	8,592	7,869
Current portion of operating lease liabilities	9,372	9,142
Other short-term liabilities	133	199
Total current liabilities	51,080	57,205
NONCURRENT LIABILITIES:		
Long-term credit agreement and term loan	16,576	32,028
Pension plan liabilities	3,932	4,015
Deferred income taxes, net	153	153
Long-term portion of operating lease liabilities	43,680	46,018
Other long-term liabilities	939	214
Total liabilities	116,360	139,633
COMMITMENTS AND CONTINGENCIES		
SERIES A CONVERTIBLE PREFERRED STOCK		
Preferred stock, no par value - 10,000,000 shares authorized, Series A convertible preferred shares, 12,700 shares issued and outstanding at March 31, 2020 and December 31, 2019	11,982	11,982
STOCKHOLDERS' EQUITY:		
Common stock, no par value - authorized: 100,000,000 shares at March 31, 2020 and December 31, 2019; issued and outstanding: 32,275,062 shares at March 31, 2020 and 31,142,251 shares at December 31, 2019	141,377	141,377
Additional paid-in capital	30,264	30,145
Treasury stock at cost - 5,910,541 shares at March 31, 2020 and December 31, 2019	(82,860)	(82,860)
Accumulated deficit	(43,808)	(42,058)
Accumulated other comprehensive loss	(4,064)	(3,456)
Total stockholders' equity	40,909	43,148
TOTAL LIABILITIES, SERIES A CONVERTIBLE PREFERRED STOCK AND EQUITY	$ 169,251	$ 194,763

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
REVENUE	$ 70,041	$ 63,263
COSTS AND EXPENSES:		
Educational services and facilities	30,238	29,980
Selling, general and administrative	41,148	38,146
Loss on disposition of assets	1	1
Total costs & expenses	71,387	68,127
OPERATING LOSS	(1,346)	(4,864)
OTHER:		
Interest income	-	4
Interest expense	(354)	(557)
LOSS BEFORE INCOME TAXES	(1,700)	(5,417)
PROVISION FOR INCOME TAXES	50	50
NET LOSS	$ (1,750)	$ (5,467)
Basic		
Net loss per share common share	$ (0.08)	$ (0.22)
Diluted		
Net loss per share common share	$ (0.08)	$ (0.22)
Weighted average number of common shares outstanding:		
Basic	24,598	24,534
Diluted	24,598	24,534

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net loss	$ (1,750)	$ (5,467)
Other comprehensive income		
Derivative qualifying as a cash flow hedge, net of taxes (nil)	(748)	-
Employee pension plan adjustments, net of taxes (nil)	140	154
Comprehensive loss	$ (2,358)	$ (5,313)

See notes to unaudited condensed consolidated financial statements.

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

	Stockholders' Equity							Series A Convertible Preferred Stock	
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total	Shares	Amount
BALANCE - January 1, 2020	31,142,251	$ 141,377	$ 30,145	$ (82,860)	$ (42,058)	$ (3,456)	$ 43,148	12,700	$ 11,982
Net loss	-	-	-	-	(1,750)	-	(1,750)	-	-
Employee pension plan adjustments	-	-	-	-	-	140	140	-	-
Derivative qualifying as cash flow hedge	-	-	-	-	-	(748)	(748)	-	-
Stock-based compensation expense									
Restricted stock	1,191,262	-	291	-	-	-	291	-	-
Net share settlement for equity-based compensation	(58,451)	-	(172)	-	-	-	(172)	-	-
BALANCE - March 31, 2020	32,275,062	$ 141,377	$ 30,264	$ (82,860)	$ (43,808)	$ (4,064)	$ 40,909	12,700	$ 11,982

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

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,750)	$ (5,467)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,890	2,050
Amortization of deferred finance charges	45	95
Loss on disposition of assets	1	1
Fixed asset donations	(220)	-
Provision for doubtful accounts	6,551	4,626
Stock-based compensation expense	291	52
(Increase) decrease in assets:		
Accounts receivable	(11,835)	(9,325)
Inventories	(227)	(241)
Prepaid income taxes and income taxes receivable	71	50
Prepaid expenses and current assets	(6)	(697)
Other assets, net	(127)	(289)
Increase (decrease) in liabilities:		
Accounts payable	(2,195)	582
Accrued expenses	723	2,326
Unearned tuition	(5,127)	(4,217)
Other liabilities	(32)	(468)
Total adjustments	(10,197)	(5,455)
Net cash used in operating activities	(11,947)	(10,922)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,287)	(639)
Net cash used in investing activities	(1,287)	(639)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings	(26,500)	(26,600)
Proceeds from borrowings	11,000	2,500
Credit (payment) of deferred finance fees	3	(86)
Net share settlement for equity-based compensation	(172)	(18)
Net cash used in financing activities	(15,669)	(24,204)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(28,903)	(35,765)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	38,644	45,946
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$ 9,741	$ 10,181

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 327	$ 518
Income taxes	$ 1	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Liabilities accrued for or noncash purchases of fixed assets	$ 721	$ 110

See notes to unaudited condensed consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(In thousands, except share and per share amounts and unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

The Company's business is organized into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions ("HOPS"), and (c) Transitional, which refers to our campus operations which have been closed.

COVID-19 Pandemic— During the first quarter of 2020, the respiratory disease caused by COVID-19 ("COVID-19") began to spread worldwide and has caused significant disruptions to the U.S. and world economies. In early March 2020, the Company began seeing the impact of the COVID-19 pandemic on our business. The impact was primarily related to transitioning classes from in-person hands-on learning to online, remote learning. As part of this transition the Company has incurred additional expenses. In addition, some students have been placed on leave of absence as they currently cannot complete their externships and some students chose not to currently participate in online learning. Once our schools re-open we expect these students to finish their programs. The duration of the disruption and related impact on the Company's consolidated financial statements is currently uncertain.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Company is still evaluating the impact of the CARES Act on the results of operations and cash flows. See Note 12 - *Subsequent Events to the Condensed Consolidated Financial Statements* included in this Quarterly Report on Form 10-Q for additional discussion about the CARES Act.

Liquidity— Over the last two years earnings have been improving and the Company had net income for the year ended December 31, 2019. As of March 31, 2020, the Company had a net debt balance of $8.8 million calculated as cash, cash equivalents and both short and long-term restricted cash less both short and long-term portion of the Company's Credit Facility (as defined below). At March 31, 2020, the Company's sources of cash primarily included cash and cash equivalents of $9.7 million. In addition, the Company has availability to borrow additional funds under its credit facility for an additional $21.0 million. The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population. As of December 31, 2019, the Company had a net cash balance of $4.6 million. The net cash balance is calculated as our cash, cash equivalents and both short and long-term restricted cash less both short and long-term portion of the Credit Agreement (as defined below). The Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future. However, the circumstances relating to COVID-19 and its evolution make any prediction impossible and, if circumstances surrounding COVID-19 continue to change in a significantly adverse way it is possible our liquidity could be materially and adversely affected.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements. Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. These statements, which should be read in conjunction with the December 31, 2019 consolidated financial statements and related disclosures of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, reflect all adjustments, consisting of normal recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows for such periods. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2020.

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

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, the Company evaluates the estimates and assumptions, including those used to determine the incremental borrowing rate to calculate lease liabilities and right-of-use ("ROU") assets, lease term to calculate lease cost, revenue recognition, bad debts, impairments, useful lives of fixed assets, income taxes, benefit plans and certain accruals. Actual results could differ from those estimates.

New Accounting Pronouncements – In March 2020, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2020-03, "*Codification Improvements to Financial Instruments*" ("ASU 2020-03"). ASU 2020-03 improves and clarifies various financial instruments topics. ASU 2020-03 includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The Company adopted ASU 2020-03 upon issuance, which did not have a material effect on the Company's condensed consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, "*Simplifying the Accounting for Income Taxes*", which simplifies the accounting for income taxes by removing certain exceptions to the general principles of ASC 740, "*Income Taxes*". The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. Depending on the amendment, adoption may be applied on a retrospective, modified retrospective or prospective basis. The Company is currently assessing the effect that this ASU will have on its condensed consolidated financial statements and related disclosures.

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

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and subsequently issued additional guidance that modified ASU 2016-13. ASU 2016-13 and the subsequent modifications are identified as Accounting Standards Codification ("ASC") 326. The standard requires an entity to change its accounting approach in determining impairment of certain financial instruments, including trade receivables, from an "incurred loss" to a "current expected credit loss" model. Further, the FASB issued ASU No. 2019-04, ASU No. 2019-05 and ASU 2019-11 to provide additional guidance on the credit losses standard. In November 2019, FASB issued ASU No. 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)". This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Additionally, in February and March 2020, the FASB issued ASU 2020-02, "*Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*" ASU 2020-02 adds a SEC paragraph pursuant to the issuance of SEC Staff Accounting Bulletin No. 119 on loan losses to FASB Codification Topic 326 and also updates the SEC section of the Codification for the change in the effective date of Topic 842. Early adoption is permitted. We are currently assessing the effect that this ASC will have on our condensed consolidated financial statements and related disclosures.

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

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

During the three months ended March 31, 2020 and 2019, the Company did not recognize any interest and penalties expense associated with uncertain tax positions.

See Note 12 - *Subsequent Events to the Unaudited Condensed Consolidated Financial Statements* included in this Quarterly Report on Form 10-Q for additional discussion about the CARES Act impact on taxes.

Derivative Instruments—The Company records the fair value of derivative instruments as either assets or liabilities on the balance sheet. The accounting for gains and losses resulting from changes in fair value is dependent on the use of the derivative and whether it is designated and qualifies for hedge accounting.

All qualifying hedging activities are documented at the inception of the hedge and must meet the definition of highly effective in offsetting changes to future cash. The Company utilizes the change in variable cash flows method to evaluate hedge effectiveness quarterly. We record the fair value of the qualifying hedges in other long-term liabilities (for derivative liabilities) and other assets (for derivative assets). All unrealized gains and losses on derivatives that are designated and qualify for hedge accounting are reported in other comprehensive income (loss) and recognized when the underlying hedged transaction affects earnings. Changes in the fair value of these derivatives are recognized in other comprehensive income (loss). The Company classifies the cash flows from a cash flow hedge within the same category as the cash flows from the items being hedged.

The Company adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, on January 1, 2019, which changes the recognition and presentation requirements of hedge accounting, including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line item as the hedged item. The ASU also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged item in fair value hedges of interest rate risk, reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method and reducing the risk of a material error correction if a company applies the shortcut method inappropriately. The adoption of ASU 2017-12 had no impact on the Company's consolidated financial statements.

2. EARNINGS PER SHARE

The Company presents basic and diluted earnings (loss) per share using the two-class method which requires all outstanding Series A Preferred Stock and unvested restricted stock that contain rights to non-forfeitable dividends and therefore participate in undistributed earnings with common shareholders be included in computing earnings per share. Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. Series A Preferred Stock and unvested restricted stock contain non-forfeitable rights to dividends on an if-converted basis and on the same basis as common shares, respectively, and are considered participating securities. Basic earnings (loss) per share has been computed by dividing net income (loss) allocated to common shareholders by the weighted-average number of common shares outstanding.

The Series A Preferred Stock and unvested restricted stock are not included in the computation of basic earnings (loss) per share in periods in which we have a net loss, as the Series A Preferred Stock and unvested restricted stock are not contractually obligated to share in our net losses. However, the cumulative dividends on preferred stock for the period increases the net loss allocated to common stockholders. The basic and diluted net loss amounts are the same for the three months ended March 31, 2020 and 2019 as a result of the net loss and anti-dilutive impact of the potentially dilutive securities. For the three months ended March 31, 2019 earnings (loss) per share was calculated using the treasury stock method. Dilutive potential common shares include outstanding stock options, unvested restricted stock and Series A Preferred Stock. The Company uses the more dilutive method of calculating the diluted earnings per share by applying the more dilutive of either (a) the treasury stock method, if-converted method, or (b) the two-class method in its diluted EPS calculation. Potentially dilutive shares are determined by applying the treasury stock method to the assumed exercise of outstanding stock options and the assumed vesting of restricted stock. Potentially dilutive shares issuable upon conversion of the Series A Preferred Stock are calculated using the if-converted method.

The following is a reconciliation of the numerator and denominator of the diluted net loss per share computations for the periods presented below:

(in thousands, except share data)	Three Months Ended 2020	2019
Numerator:		
Net loss	$ (1,750)	$ (5,467)
Less: preferred stock dividend	(308)	-
Less: allocation to preferred stockholders	-	-
Less: allocation to restricted stockholders	-	-
Net loss allocated to common stockholders	$ (2,058)	$ (5,467)
Basic loss per share:		
Denominator:		
Weighted average common shares outstanding	24,598,346	24,534,207
Basic loss per share	$ (0.08)	$ (0.22)
Diluted loss per share:		
Denominator:		
Weighted average number of:		
Common shares outstanding	24,598,346	24,534,207
Dilutive potential common shares outstanding:		
Series A Preferred Stock	-	-
Unvested restricted stock	-	-
Stock options	-	-
Dilutive shares outstanding	24,598,346	24,534,207
Diluted loss per share	$ (0.08)	$ (0.22)

The following table summarizes the potential weighted average shares of common stock that were excluded from the determination of our diluted shares outstanding as they were anti-dilutive:

(in thousands, except share data)	Three Months Ended 2020	2019
Series A Preferred Stock	5,448,802	-
Unvested restricted stock	613,701	175,675
	6,062,503	175,675

3. REVENUE RECOGNITION

Substantially all of our revenues are considered to be revenues from contracts with students. The related accounts receivable balances are recorded in our balance sheets as student accounts receivable. We do not have significant revenue recognized from performance obligations that were satisfied in prior periods, and we do not have any transaction price allocated to unsatisfied performance obligations other than in our unearned tuition. We record revenue for students who withdraw from our schools only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Unearned tuition represents contract liabilities primarily related to our tuition revenue. We have elected not to provide disclosure about transaction prices allocated to unsatisfied performance obligations if original contract durations are less than one-year, or if we have the right to consideration from a student in an amount that corresponds directly with the value provided to the student for performance obligations completed to date in accordance with ASC 606. We have assessed the costs incurred to obtain a contract with a student and determined them to be immaterial.

Unearned tuition in the amount of $18.3 million and $23.4 million is recorded in the current liabilities section of the accompanying condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019, respectively. The change in this contract liability balance during the three month period ended March 31, 2020 is the result of payments received in advance of satisfying performance obligations, offset by revenue recognized during that period. Revenue recognized for the three month period ended March 31, 2020 that was included in the contract liability balance at the beginning of the year was $20.1 million.

The following table depicts the timing of revenue recognition:

Three months ended March 31, 2020	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Consolidated
Timing of Revenue Recognition			
Services transferred at a point in time	$ 2,498	$ 1,073	$ 3,571
Services transferred over time	46,558	19,912	66,470
Total revenues	$ 49,056	$ 20,985	$ 70,041

Three months ended March 31, 2019	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Consolidated
Timing of Revenue Recognition			
Services transferred at a point in time	$ 2,081	$ 1,075	$ 3,156
Services transferred over time	42,244	17,863	60,107
Total revenues	$ 44,325	$ 18,938	$ 63,263

4. LEASES

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

Our operating lease cost for the three months ended March 31, 2020 and 2019, was $3.7 and $3.6 million, respectively. Our variable lease cost for the three months ended March 31, 2020 was less than $0.1 million. The net change in the ROU asset and lease liability are included in other assets in the condensed consolidated cash flows for the three months ended March 31, 2020 and 2019.

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

	Three Months Ended March 31,	
	2020	2019
Operating cash flow information:		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,840	$ 3,782
Non-cash activity:		
Lease liabilities arising from obtaining right-of-use assets	$ 50	$ 47,977

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

	Three Months Ended March 31,	
	2020	2019
Weighted-average remaining lease term	6.06 years	5.79 years
Weighted-average discount rate	12.82%	14.45%

Maturities of lease liabilities by fiscal year for our operating leases as of March 31, 2020 are as follows:

Year ending December 31,	
2020 (excluding the three months ended March 31, 2019)	$ 11,589
2021	13,627
2022	11,616
2023	9,988
2024	8,749
2025	7,174
Thereafter	12,833
Total lease payments	75,576
Less: imputed interest	(22,524)
Present value of lease liabilities	$ 53,052

5. GOODWILL AND LONG-LIVED ASSETS

The Company reviews long-lived assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. There were no long-lived asset impairments during the three months ended March 31, 2020 and 2019.

The Company reviews goodwill for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill for impairment, with any resulting impairment reflected as an operating expense. The Company concluded that, as of March 31, 2020 and 2019, there were no indicators of potential impairment and, accordingly, the Company did not test goodwill for impairment.

The carrying amount of goodwill at March 31, 2020 and 2019 is as follows:

	Gross Goodwill Balance	Accumulated Impairment Losses	Net Goodwill Balance
Balance as of January 1, 2020	$ 117,176	$ (102,640)	$ 14,536
Adjustments	-	-	-
Balance as of March 31, 2020	$ 117,176	$ (102,640)	$ 14,536

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

As of March 31, 2020 and 2019, the goodwill balance is related to the Transportation and Skilled Trades segment.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2020	December 31, 2019
Credit agreement	$ 19,333	$ 34,833
Deferred Financing Fees	(757)	(805)
	18,576	34,028
Less current maturities	(2,000)	(2,000)
	$ 16,576	$ 32,028

Credit Facility with Sterling National Bank

On November 14, 2019, the Company entered into a new senior secured credit agreement (the “Credit Agreement”) with its lender, Sterling National Bank (the “Lender”), pursuant to which the Company obtained a new credit facility in the aggregate principal amount of up to $60 million (the “Credit Facility”).

The Credit Facility is comprised of four facilities: a $20 million senior secured term loan maturing on December 1, 2024 (the “Term Loan”), with monthly interest and principal payments based on 120-month amortization with the outstanding balance due on the maturity date; a $10 million senior secured delayed draw term loan maturing on December 1, 2024 (the “Delayed Draw Term Loan”), with monthly interest payments for the first 18 months and thereafter monthly payments of interest and principal based on 120-month amortization and all balances due on the maturity date; a $15 million senior secured committed revolving line of credit providing a sublimit of up to $10 million for standby letters of credit maturing on November 13, 2022 (the “Revolving Loan”), with monthly payments of interest only; and a $15 million senior secured non-restoring line of credit maturing on January 31, 2021 (the “Line of Credit Loan”). The Credit Agreement gives the Company the right to permanently terminate, in its entirety, the Revolving Loan or the Line of Credit Loan or permanently reduce the amount available for borrowing under the Revolving Loan or the Line of Credit Loan. In April 2020, the Company terminated the Line of Credit Loan.

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

At the closing of the Credit Facility, the Lender advanced the Term Loan to the Company, the net proceeds of which was $19.7 million after deduction of the Lender’s origination fee in the amount of $0.3 million and other Lender fees and reimbursements to the Lender that are customary for facilities of this type. The Company used the net proceeds of the Term Loan, together with cash on hand, to repay the existing credit facility and transaction expenses.

Pursuant to the terms of the Credit Agreement, letters of credit issued under the Revolving Loan reduce dollar for dollar the availability of borrowings under the Revolving Loan. Borrowings under the Line of Credit Loan are to be secured by cash collateral.

Borrowing under the Delayed Draw Term Loan is available during the period commencing on the closing date of the Credit Facility and ending on May 31, 2021.

Accrued interest on each loan under the Credit Facility will be payable monthly in arrears. The Term Loan and the Delayed Draw Term Loan will bear interest at a floating interest rate based on the then one month London Interbank Offered Rate (“LIBOR”) plus 3.50%. At the closing of the Credit Facility, the Company entered into a swap transaction with the Lender for 100% of the principal balance of the Term Loan, which matures on the same date as the Term Loan. pursuant to a swap agreement between the Company and the Lender. At the end of the borrowing availability period for the Delayed Draw Term Loan, the Company is required to enter into a swap transaction with the Lender for 100% of the principal balance of the Delayed Draw Term Loan, which will mature on the same date as the Delayed Draw Term Loan, pursuant to a swap agreement between the Company and the Lender or the Lender’s affiliate.   The Term Loan and Delayed Draw Term Loan are subject to a LIBOR interest rate floor of .25% if there is no swap agreement.

Revolving Loans bear interest at a floating interest rated based on the then LIBOR plus an indicative spread determined by the Company's leverage as defined in the Credit Agreement or, if the borrowing of a Revolving Loan is to be repaid within 30 days of such borrowing, the Revolving Loan will accrue interest at the Lender's prime rate plus .50% with a floor of 4.0%. Line of Credit Loans will bear interest at a floating interest rated based on the Lender's prime rate of interest. Revolving Loans are subject to a LIBOR interest rate floor of .00%.

Letters of credit will be charged an annual fee equal to (i) an applicable margin determined by the leverage ratio of the Company less (ii) .25%, paid quarterly in arrears, in addition to the Lender's customary fees for issuance, amendment and other standard fees. Letters of credit totaling $4 million that were outstanding under the existing credit facility are treated as letters of credit under the Revolving Loan.

Under the terms of the Credit Agreement, the Company may prepay the Term Loan and/or the Delayed Draw Term Loan in full or in part without penalty except for any amount required to compensate the Lender for any swap breakage or other costs incurred in connection with such prepayment. The Lender receives an unused facility fee of 0.50% per annum payable quarterly in arrears on the unused portions of the Revolving Loan and the Line of Credit Loan.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants (including financial covenants that (i) restrict capital expenditures, (ii) restrict leverage, (iii) require maintaining minimum tangible net worth, (iv) require maintaining a minimum fixed charge coverage ratio and (v) require the maintenance of a minimum of $5 million in quarterly average aggregate balances on deposit with the Lender, which, if not maintained, will result in the assessment of a quarterly fee of $12,500), as well as events of default customary for facilities of this type. As of March 31, 2020, the Company was in compliance with all debt covenants.

As of March 31, 2020 and December 31, 2019, the Company had $19.3 million and $34.8 million, respectively, outstanding under the Credit Facility; offset by $0.8 million and $0.8 million of deferred finance fees, respectively. In January 2020, the Company repaid the $15.0 million outstanding on the Line of Credit Loan which was fully cash collateralized. As of March 31, 2020 and December 31, 2019, letters of credit in the aggregate outstanding principal amount of $4.0 million and $4.0 million, respectively, were outstanding under the Credit Facility.

Scheduled maturities of long-term debt at March 31, 2020 are as follows:

Year ending December 31,		
2020	$	2,000
2021		2,000
2022		2,000
2023		2,000
2024		11,333
	$	19,333

7. STOCKHOLDERS' EQUITY

Common Stock

Holders of our common stock are entitled to receive dividends when and as declared by our Board of Directors and have the right to one vote per share on all matters requiring shareholder approval. The Company has not declared or paid any cash dividends on our common stock since the Company's Board of Directors discontinued our quarterly cash dividend program in February 2015. The Company has no current intentions to resume the payment of cash dividends in the foreseeable future.

Preferred Stock

On November 14, 2019, the Company raised gross proceeds of $12.7 million from the sale of 12,700 shares of its newly designated Series A 9.6% Convertible Preferred Stock, no par value per share (the "Series A Preferred Stock"). The Series A Preferred Stock was designated by the Company's Board of Directors pursuant to a certificate of amendment to the Company's amended and restated certificate of incorporation. The liquidation preference associated with the Series A Preferred Stock was $1,000 per share at December 31, 2019. The Company incurred issuance cost of $0.7 million as part of this transaction.

The description below provides a summary of certain material terms of the Series A Preferred Stock pursuant to the Securities Purchase Agreement and set forth in the Certificate of Amendment (the "Charter Amendment") affecting the Series A Preferred Stock:

Securities Purchase Agreement.

The Series A Preferred Stock was sold by the Company pursuant to a Securities Purchase Agreements dated as of November 14, 2019 (the "SPA") among the Company, Juniper Targeted Opportunity Fund, L.P. and Juniper Targeted Opportunities, L.P. (together, "Juniper Purchasers") and Talanta Investment, Inc. ("Talanta", together with Juniper Purchasers, the "Investors"). Among other things, the SPA includes covenants relating to the appointment of a director to the Company's Board of Directors to be selected solely by the holders of the Series A Preferred Stock.

Dividends. Dividends on the Series A Preferred Stock ("Series A Dividends"), at the initial annual rate of 9.6% is to be paid, in advance, from the date of issuance quarterly on each December 31, March 31, June 30 and September 30 with September 30, 2020 as the first dividend payment date. The Company, at its option, may pay dividends in cash or dividends will accrue and thereby increase the number of shares issuable upon conversion of the Series A Preferred Stock. The dividend rate is subject to increase (a) 2.4% per annum on the fifth anniversary of the issuance of the Series A Preferred Stock (b) by 2% per annum but in no event above 14% per annum should the Company fail to perform certain obligations under the Charter Amendment. The Series A Preferred Stock is not currently redeemable and it is not probable it will become redeemable in the future. As a result, the Company is not required to re-measure the Series A Preferred Stock and does not accrete changes in the redemption value. As of March 31, 2020, undeclared cumulative dividends are approximately $0.5 million.

Series A Preferred Stock Holders Right to Convert into common stock. Each share of Series A Preferred Stock, at any time, is convertible into a number of shares of common stock equal to ("Convertible Formula") the quotient of (i) the sum of (A) $1,000 (subject to adjustment as provided in the Charter Amendment) plus (B) the dollar amount of any declared Series A Dividends not paid in cash divided by (ii) the Series A Conversion Price (as defined and adjusted in the Charter Amendment) as of the applicable Conversion Date (as defined in the Charter Amendment). The initial Conversion Price is $2.36. At all times, however, the number of Conversion Shares that can be issued to any Series A Preferred Stock Holder may not result in such holder and its affiliates owning more than 19.99% of the total number of shares of common stock outstanding after giving effect to the conversion (the "Hard Cap"), unless prior shareholder approval is obtained or no longer required by the rules of the principal stock exchange on which the Company's common stock trade.

Mandatory Conversion. If, at any time following November 14, 2022 the volume weighted average price of the Company's common stock equals or exceeds 2.25 times the Conversion Price for a period of 20 consecutive trading days and on each such trading day at least 20,000 shares of common stock was traded, the Company may, at its option and subject to the Hard Cap, require that any or all of the then outstanding shares of Series A Preferred Stock be automatically converted into shares of common stock at the then applicable convertible Formula at the Company's discretion.

Redemption. Beginning November 14, 2024, the Company may redeem all or any of the Series A Preferred Stock for a cash price equal to the greater of ("Liquidation Preference") (i) the sum of $1,000 (subject to adjustment as provided in the Charter Amendment) plus the dollar amount of any declared Series A Dividends not paid in cash and (ii) the value of the Conversion Shares were such Series A Preferred Stock converted (as determined in the Charter Amendment) without regard to the Hard Cap.

Change of Control. In the event of certain changes of control, some of which are not in the Company's control, as defined in the Charter Amendment as a "Fundamental Change" or a "Liquidation" (as defined in the Charter Amendment), the Series A Preferred Stockholders shall be entitled to receive the Liquidation Preference, unless such Fundamental Change is a stock merger in which certain value and volume requirements are met, in which case the Series A Preferred Stock will be converted into common stock in connection with such stock merger. The Company has classified the Series A Preferred Stock as mezzanine equity on the Consolidated Balance Sheet based upon the terms of a change of control which could be outside the Company's control.

Voting. Holders of shares of Series A Preferred Stock will be entitled to vote with the holders of shares of common stock and not as a separate class, at any annual or special meeting of shareholders of the Company, on an as-converted basis, in all cases subject to the Hard Cap. In addition, a majority of the voting power of the Series A Preferred Stock must approve certain significant actions of the Company, including (i) declaring a dividend or otherwise redeeming or repurchasing any shares of common stock and other junior securities, if any, subject to certain exceptions, (ii) incurring indebtedness, except for certain permitted indebtedness and (iii) creating a subsidiary other than a wholly-owned subsidiary.

Additional Provisions. The Series A Preferred Stock is perpetual and therefore does not have a maturity date. The conversion price of the Series A Preferred Stock is subject to anti-dilution protections if the Company affects a stock split, stock dividend, subdivision, reclassification or combination of its common stock and certain other economically dilutive events.

Registration Rights Agreement. The Company also is a party to a Registration Rights Agreement ("RRA") with the investors of the Series A Preferred Stock. The RRA provides for unlimited demand registration rights, of which there can be two underwritten offerings each for at least $5 million in gross proceeds, and piggyback registration rights, with respect to the Conversion Shares.

Restricted Stock

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

Under the LTIP, certain employees receive awards of restricted shares of common stock based on service and performance. The number of shares granted to each employee is based on the amount of the award and the fair market value of a share of common stock on the date of grant.

On February 20, 2020, performance-based restricted shares were granted to certain employees of the Company. The shares vest 20%, 30% and 50% on the first, second and third anniversary dates, respectively, based upon the attainment of a financial target during each fiscal year ending December 31, 2020, 2021 and 2022, respectively. There is no restriction on the right to vote or the right to receive dividends with respect to any of such restricted shares. As of March 31, 2020, the Company recorded expense of $0.1 million as the expectation of attainment of the target is expected.

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

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

For the three months ended March 31, 2020 and 2019, the Company completed a net share settlement for 58,451 and 5,518 restricted shares, respectively, on behalf of certain employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP. The net share settlement was in connection with income taxes incurred on restricted shares that vested and were transferred to the employees during 2019 and/or 2018, creating taxable income for the employees. At the employees' request, the Company will pay these taxes on behalf of the employees in exchange for the employees returning an equivalent value of restricted shares to the Company. These transactions resulted in a decrease of $0.2 million and less than $0.1 million for each of the three months ended March 31, 2020 and 2019, respectively, to equity on the condensed consolidated balance sheets as the cash payment of the taxes effectively was a repurchase of the restricted shares granted in previous years.

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

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock outstanding at December 31, 2019	595,436	$ 3.15
Granted	1,191,262	2.49
Canceled	-	-
Vested	(158,858)	3.17
Nonvested restricted stock outstanding at March 31, 2020	1,627,840	2.67

The restricted stock expense for the three months ended March 31, 2020 and 2019 was $0.3 million and $0.1 million, respectively. The unrecognized restricted stock expense as of March 31, 2020 and December 31, 2019 was $3.9 million and $1.2 million, respectively. As of March 31, 2020, outstanding restricted shares under the LTIP had aggregate intrinsic value of $3.6 million.

Stock Options

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

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	116,000	$ 10.56	1.83 years	$ -
Granted/Canceled/Vested	-	-		-
Outstanding at March 31, 2020	116,000	10.56	1.58 years	-
Vested as of March 31, 2020	116,000	10.56	1.58 years	-
Exercisable as of March 31, 2020	116,000	10.56	1.58 years	-

As of March 31, 2020, there was no unrecognized pre-tax compensation expense.

The following table presents a summary of stock options outstanding:

	At March 31, 2020				
	Stock Options Outstanding			Stock Options Exercisable	
Exercise Prices	Shares	Contractual Weighted Average Life (years)	Weighted Average Price	Shares	Weighted Average Exercise Price
$ 7.79	91,000	1.92	$ 7.79	91,000	7.79
$ 20.62	25,000	0.35	20.62	25,999	20.62
	116,000	1.58	10.56	116,999	10.56

8. INCOME TAXES

The provision for income taxes for the three months ended March 31, 2020 and 2019 was less than $0.1 million, or 2.9% of pretax loss, and less than $0.1 million, or 0.9% of pretax loss, respectively.

The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to recover the existing deferred tax assets. In this regard, a significant objective negative evidence was the cumulative losses incurred by the Company in recent years. On the basis of this evaluation, the realization of the Company’s deferred tax assets was not deemed to be more likely than not and, thus, the Company maintained a full valuation allowance on its net deferred tax assets as of March 31, 2020.

See Note 12 - *Subsequent Events to the Unaudited Condensed Consolidated Financial Statements* included in this Quarterly Report on Form 10-Q for additional discussion about the CARES Act for impact on taxes.

9. COMMITMENTS AND CONTINGENCIES

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

Information regarding certain specific legal proceedings in which the Company is involved is contained in Part I, Item 3, and in Note 15 to the Notes to the Condensed Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Unless otherwise indicated in this report, all proceedings discussed in the earlier report which are not indicated therein as having been concluded, remain outstanding as of March 31, 2020.

10. SEGMENTS

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

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

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

Transitional – The Transitional segment refers to our campus operations which have been closed. The schools in the Transitional segment employed a gradual teach-out process that enabled the schools to continue to operate to allow their current students to complete their course of study.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus's geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. Campuses classified in the Transitional segment have been subject to this process and have been strategically identified for closure. As of March 31, 2020 and 2019 and December 31, 2019, no campuses have been categorized in the Transitional segment.

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

Summary financial information by reporting segment is as follows:

	For the Three Months Ended March 31,					
	Revenue				Operating Income (Loss)	
	2020	% of Total	2019	% of Total	2020	2019
Transportation and Skilled Trades	$ 49,056	70.0%	$ 44,325	70.1%	$ 4,840	$ 1,817
Healthcare and Other Professions	20,985	30.0%	18,938	29.9%	2,000	972
Corporate	-	0.0%	-	0.0%	(8,186)	(7,653)
Total	$ 70,041	100.0%	$ 63,263	100.0%	$ (1,346)	$ (4,864)

	Total Assets	
	March 31, 2020	December 31, 2019
Transportation and Skilled Trades	$ 124,619	$ 121,611
Healthcare and Other Professions	28,275	27,945
Corporate	16,357	45,207
Total	$ 169,251	$ 194,763

11. FAIR VALUE

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

	March 31, 2020				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 9,741	$ 9,741	$ -	$ -	$ 9,741
Prepaid expenses and other current assets	4,100	-	4,100	-	4,100
Financial Liabilities:					
Accrued expenses	$ 8,592	$ -	$ 8,592	$ -	$ 8,592
Other short term liabilities	133	-	133	-	133
Credit facility	18,576	-	14,817	-	14,817

	December 31, 2019				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 23,644	$ 23,644	$ -	$ -	$ 23,644
Restricted cash	15,000	15,000	-	-	15,000
Prepaid expenses and other current assets	4,190	-	4,190	-	4,190
Financial Liabilities:					
Accrued expenses	$ 7,869	$ -	$ 7,869	$ -	$ 7,869
Other short term liabilities	199	-	199	-	199
Credit facility	34,028	-	34,028	-	34,028

As of March 31, 2020, we estimated the fair value of the Credit Facility based on a present value analysis utilizing aggregate market yields obtained from independent pricing sources for similar financial instruments. As of December 31, 2019, we estimated that the carrying value of the Credit Facility approximates the fair value due to the fact that the Credit Facility was entered into in close proximity.

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

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

Qualifying Hedge Derivative

On November 14, 2019, the Company entered into an interest rate swap for the Term Loan with a notional amount of $20M which expires on December 1, 2024. The loan has a 10-year straight line amortization. A principal amount of $0.2 million is paid monthly. This interest rate swap converts the floating interest rate Term Loan to a fixed rate, plus a borrowing spread. The interest rate is variable based on LIBOR plus 3.50% and the Company's fixed rate is 5.36%. The Company designated this interest rate swap as a cash flow hedge.

The Company entered into this interest rate swap to hedge exposure resulting from the interest rate risk. The purpose of this hedge is to reduce the variability of the interest rate based on LIBOR. The Company manages these exposures within specified guidelines through the use of derivatives. All of our derivative instruments are utilized for risk management purposes, and the Company does not use derivatives for speculative trading purposes.

The interest rate swap had a notional amount of $19.8 million and a fair value of $0.9 million and $0.1 million as of March 31, 2020 and December 31, 2019, respectively. The Company's derivative liability is measured at fair value using observable market inputs such as interest rates and our own credit risk as well as an evaluation of our counterparty's credit risk. Based on these inputs the derivative liability is classified within Level 2 of the valuation hierarchy. The liability is included in other long-term liabilities in the condensed consolidated balance sheets.

The interest expense recorded as a result of the interest rate swap was $0.1 million as of March 31, 2020. The loss recognized in accumulated other comprehensive income (loss) and the derivative liability which was recorded in other long-term liabilities was $0.9 million as of March 31, 2020.

12. SUBSEQUENT EVENTS

The Company began seeing the impact of the global COVID-19 pandemic on its business in early March and such impacts have continued. The impact was primarily related to transitioning classes from in-person hands-on learning to online, remote learning. As part of this transition, the Company has incurred additional expenses. In addition, some students have been placed on leave of absence as they currently cannot complete their externships and some students chose not to currently participate in online learning. Once our schools re-open we expect that these students will finish their programs. The Company expects to continue to be impacted by COVID-19 as the situation remains dynamic and evolving and subject to rapid and possibly material change. Additional impacts may arise of which the Company is not currently aware. The nature and extent of such impacts will depend on future developments, which are highly uncertain and cannot be predicted.

On March 27, 2020, President Trump signed into law CARES Act, which includes a $2 trillion federal economic relief package providing financial assistance and other relief to individuals and business impacted by the spread of COVID-19. The spread of COVID-19 has had an unprecedented impact on higher educational institutions across the country, including our schools, and has led to the closure of campuses and the transition of academic programs from on-ground to online delivery. The CARES Act includes provisions for financial assistance and other regulatory relief benefitting students and their postsecondary institutions.

Among other things, the CARES Act includes a $14 billion higher education emergency relief fund ("HEERF") for the DOE to distribute directly to institutions of higher education. Institutions are required to use at least half of the HEERF funds for emergency grants to students for expenses related to disruptions in campus operations (e.g., food, housing, etc.). Institutions are permitted to use the remainder of the funds for additional emergency grants to students or to cover institutional costs associated with significant changes to the delivery of instruction due to the COVID-19 emergency, provided that those costs do not include payment to contractors for the provision of pre-enrollment recruitment activities, endowments, or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship. The law requires institutions receiving funds to continue to the greatest extent practicable to pay its employees and contractors during the period of any disruptions or closures related to the COVID-19 emergency.

The DOE subsequently allocated funds to each institution of higher education based on a formula contained in the CARES Act The formula is heavily weighted toward institutions with large numbers of Pell Grant recipients. The DOE collectively allocated $27.4 million to our schools to be distributed in two equal installments. The first installment is intended for emergency grants to students. The second installment is intended for institutional costs and additional emergency grants to students. The DOE also has published guidance regarding permitted and prohibited use of these funds and requirements for reporting the use of these funds. If the funds are not spent or accounted for in accordance with applicable requirements, we could be required to return funds or be subject to other sanctions.

The CARES Act also contains separate educational provisions that relieve both institutions and students from complying with the requirement to repay Title IV funds following a student's withdrawal as a result of the COVID-19 emergency. Ordinarily, when a student withdraws, the institution (and, in some cases, the student) may be required to return unearned portions of the Title IV grant and loan funds awarded for the period. Institutions will be required to report to the DOE the total amount of grant and loan funds the institution has not returned due to the waiver. For federal loan borrowers, the CARES Act also directs the DOE to cancel the borrower's obligation to repay any Direct Loan associated with the relevant period. The law also expands the options to avoid student withdrawals due to a cessation of attendance by placing students on an approved leave of absence and waives certain requirements normally applicable to a leave of absence. The CARES Act also allows institutions to exclude from the calculation of a student's satisfactory academic progress any attempted credits not completed due to the COVID-19 emergency.

The Company is also permitted to delay payment of FICA payroll taxes until January 1, 2021. The Company will have to repay 50 percent of the deferred payments by December 31, 2021, and the remaining 50 percent by December 31, 2022.

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

All references in this Quarterly Report to "we," "our," "us" and the "Company," refer to Lincoln Educational Services Corporation and its subsidiaries unless the context indicates otherwise.

The following discussion may contain forward-looking statements regarding the Company, our business, prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Such statements may be identified by the use of words such as "expect," "estimate," "assume," "believe," "anticipate," "may," "will," "forecast," "outlook," "plan," "project," or similar words, and include, without limitation, statements relating to future enrollment, revenues, revenues per student, earnings growth, operating expenses, capital expenditures and the ultimate effect of the COVID-19 pandemic on the Company's business and results. These statements are based on the Company's current expectations and are subject to a number of assumptions, risks and uncertainties. Additional factors that could cause or contribute to differences between our actual results and those anticipated include, but are not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

The interim financial statements and related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and the discussions contained herein should be read in conjunction with the annual financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2019.

General

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

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

Impact of COVID-19 on the Company

During the first quarter of 2020, the respiratory disease caused by COVID-19 began to spread worldwide and has caused significant disruptions to the U.S. and world economies. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. On March 13, 2020, President Trump declared a national emergency, which made federal funds available to respond to the crisis. Beginning on March 15, 2020, many businesses closed or reduced hours throughout the U.S. to combat the spread of COVID-19. All 50 states have reported cases of COVID-19 and the states have implemented various containment efforts, including lockdowns on non-essential businesses. Economists expect that the impact of COVID-19 on the U.S. economy will be significant during the remainder of 2020. The circumstances related to COVID-19 are unprecedented, dynamic and evolving and currently unpredictable. As the economic impact of the COVID-19 pandemic becomes clearer as the year progresses, we could see significant changes to our operations. In response to COVID-19, we have implemented initiatives to safeguard our students and our employees in this time of crisis. The following discussion highlights how we are responding and the expected impacts of COVID-19 on our business.

Due to the evolving landscape relating to COVID-19 and the unpredictability of the circumstances, the information below should be read in conjunction with our COVID-19 Pandemic risk factor. See Part II, Item 1A. “Risk Factors — COVID-19 Pandemic” in this Quarterly Report on Form 10-Q for risks associated with COVID-19. See also Part I, Item 1A. “Risk Factors” in our 2019 Form 10-K for additional risk factors relating to our Company and the industry. In addition, see the forward-looking and cautionary statements discussion above. Forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A. “Risk Factors” and elsewhere in the 2019 Form 10-K and this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020.

Transition to Distance Learning

The Company has quickly transitioned all of its programs from in-person to distance learning. The Company obtained approvals from the DOE, certain states and agencies to transition to distance learning. The Company worked with our book vendors to get e-books for the students. The Company has ensured that all students have either received laptops, tablets or already owned a device. The Company has enhanced its education platform for online learning called Canvas with Instructure, Inc.

Employees

Our employees have been affected by COVID-19 in many ways, including disruptions due to unexpected school and day-care closings, family underemployment or unemployment, and learning how to work remotely and, in some cases, with new tools and technology to learn and to support that work. Our goal has been to support our people during the present uncertainty while remaining focused on meeting the needs of our students and business continuity. Early in the crisis, we provided employees with information about best practices to prevent the spread of COVID-19 and other viruses and illnesses. We recommended that non-student interfacing employees work from home and we reduced the density and provided space for us to implement social distancing protocols for the employees who were required to work in our offices. Later, we enabled substantially all of our workforce to work remotely. In addition, we have limited in-person meetings, non-employee visits to our locations, and non-essential business travel.

To further protect the health and welfare of our employees we have also encouraged employees who potentially have been exposed to COVID-19 to self-quarantine for 14 days while we continue to pay them. To ease access to medical assistance, we are waiving co-payments for COVID-19 testing and telemedicine for those employees enrolled in our health insurance plans. The Company’s vacation policy was enhanced in the second quarter of 2020 to include up to two weeks of payments for unused vacation days for instructors.

Community

We understand that the communities in which our employees live, work, and serve are also suffering distress as a result of COVID-19. Due to the growing needs of our neighbors, healthcare providers and many of the organizations in place to provide assistance are overburdened. In March 2020, the several campuses in the Tri-State (NY, NJ & CT) area have donated medical supplies and personal protective equipment (PPEs) to major medical facilities throughout the region.

Operations

We have robust pandemic and business continuity plans that include our business units and technology environments. When COVID-19 advanced to a pandemic, we activated our business continuity plan (the “Continuity Plan”). As an element of the Continuity Plan, we activated our Health Communications Response Team (“HCRT”), a group of the corporate senior managers, who directed a series of activities to address the health and safety of our workforce, to assist students, to sustain business operations, to coordinate communication and to address our management of other ongoing pandemic activities.

In response to a growing infected population across the United States, we executed plans for social-distancing in our facilities and implemented work-from-home contingencies. As the virus spread, we created remote-working capabilities for our employees. We also completed a series of additional steps to appropriately ensure compliance with our telecommuting policy. The policy is designed to create a secure at-home work environment that protects our students’ information and transactions while also providing the necessary technology capabilities to enable effective remote-working for our staff.

There has been a modest decline in productivity for certain departments as our people adjust to this significant change in work environment. We currently believe our technology infrastructure is sufficient to maintain a remote-working environment for the vast majority of our workforce for the foreseeable future and that productivity should improve as our people adjust to this significant change in work environment. The level and ability of our employees to continue working from home could change, however, as conditions surrounding COVID-19 evolve and infections increase, or if there are interruptions in the internet infrastructure where our employees live or if our internet service providers are otherwise adversely affected.

Return to In-Person Operations

The HCRT is closely monitoring the guidelines released by each state and city in which our schools are located and has developed plans for reopening each of our schools in stages based upon guidance received from the applicable state authorities. Included in those plans are purchasing personal protective equipment; limiting the number of students in classrooms; separating students by at least 6 feet and closing/limiting all common areas; requiring everyone at the schools to wear a cloth face mask; and maintaining a daily log of anyone at the school and monitoring body temperatures of those at the school through non-contact thermometers. In a similar way, we are also reviewing the return of employees and rotating schedules to limit/control the number of employees in spaces.

Student Population and Financial Results

Due to timing of stay-at-home orders by many states in which our schools are located and the scheduled timing of certain program start dates, some program start dates were delayed from the first quarter of 2020 until the second quarter of 2020. The delay in program start dates caused the Company to have 143 less student starts for the three months ended March 31, 2020 compared to the three months ended 2019.

As of March 31, 2020, the Company had 324 students on leave of absence due to COVID-19. The majority of these students were at the end of their program and were on externship which they were not able to complete. The Company is currently working on adding remote externship opportunities so that these students can complete their externships. A smaller portion of the students on leave of absence are due to the students not wanting to undertake their programs through distance learning but are expected to return to their programs when in-person schooling reopens.

The Company has extended the length and graduation dates of three programs as there is only a small percentage of these three programs that can be taught through distance learning.

The Company has campuses where students live in dorms that are operated by either the Company itself, Collegiate Housing or other housing options. The majority of the students have returned home and their dorm charges have been reversed. In addition, at campuses where students have meal plans, the Company's cafeterias has been closed and all charges for meal plans have been reversed. For students that remain in dorms, the Company has given the students gift cards to assist in replacing their meal plans.

For the three months ended March 31, 2020, the Company's expenses included approximately $0.7 million due to costs related to actions taken in response to COVID-19.

Institutional Student Loans

COVID-19 is having far reaching, negative impact on individuals, businesses, and, consequently, the overall economy. Specifically, COVID-19 has materially disrupted business operations resulting in significantly higher levels of unemployment or underemployment. As a consequence, we expect many of our individual students will experience financial hardship, making it difficult, if not impossible, to meet their payment obligations to us without temporary assistance.

As a result of the negative impact on employment from COVID-19, we are anticipating higher levels of financial hardship for our students, which we expect will lead to higher levels of forbearance, delinquency and defaults. We expect that, left unabated, this deterioration in forbearance, delinquency and default rates will persist until such time as the economy and employment return to relatively normal levels.

We expect that, as the economic impact of COVID-19 evolves, we will continue to evaluate the measures we have put in place to assist our students during this unprecedented challenge. We continue to adapt and evolve our collections practices to meet the needs of our students.

Liquidity

As previously reported, over the course of 2019, we significantly increased our overall liquidity position. As a result of these efforts, we currently believe our liquidity position is stable and we expect to be able to fund our business operations in 2020. As a result, we believe that we have sufficient capital to withstand the potential downturn in our business. If circumstances surrounding COVID-19 continue to change in a significantly adverse way, however, it is possible our liquidity could be materially and adversely affected, which could materially and adversely impact our business operations and our overall financial condition.

Regulatory agencies have also provided regulatory capital relief to institutions as a result of the crisis as discussed below.

Regulatory

On March 27, 2020, President Trump signed into law the CARES Act, which includes a $2 trillion federal economic relief package providing financial assistance and other relief to individuals and business impacted by the spread of COVID-19. The spread of COVID-19 has had an unprecedented impact on higher educational institutions across the country, including our schools, and has led to the closure of campuses and the transition of academic programs from on-ground to online delivery. The CARES Act includes provisions for financial assistance and other regulatory relief benefitting students and their postsecondary institutions.

Among other things, the CARES Act includes a $14 billion HEERF fund for the DOE to distribute directly to institutions of higher education. Institutions are required to use at least half of the HEERF funds for emergency grants to students for expenses related to disruptions in campus operations (e.g., food, housing, etc.). Institutions are permitted to use the remainder of the funds for additional emergency grants to students or to cover institutional costs associated with significant changes to the delivery of instruction due to the COVID-19 emergency, provided that those costs do not include payment to contractors for the provision of pre-enrollment recruitment activities, endowments, or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship. The law requires institutions receiving funds to continue to the greatest extent practicable to pay its employees and contractors during the period of any disruptions or closures related to the COVID-19 emergency.

The DOE subsequently allocated funds to each institution of higher education based on a formula contained in the CARES Act The formula is heavily weighted toward institutions with large numbers of Pell Grant recipients. The DOE collectively allocated $27.4 million to our schools to be distributed in two equal installments. The first installment is intended for emergency grants to students. The second installment is intended for institutional costs and additional emergency grants to students. The DOE also has published guidance regarding permitted and prohibited use of these funds and requirements for reporting the use of these funds. If the funds are not spent or accounted for in accordance with applicable requirements, we could be required to return funds or be subject to other sanctions.

The CARES Act also contains separate educational provisions that relieve both institutions and students from complying with the requirement to repay Title IV funds following a student's withdrawal as a result of the COVID-19 emergency. Ordinarily, when a student withdraws, the institution (and, in some cases, the student) may be required to return unearned portions of the Title IV grant and loan funds awarded for the period. Institutions will be required to report to the DOE the total amount of grant and loan funds the institution has not returned due to the waiver. For federal loan borrowers, the CARES Act also directs the DOE to cancel the borrower's obligation to repay any Direct Loan associated with the relevant period. The law also expands the options to avoid student withdrawals due to a cessation of attendance by placing students on an approved leave of absence and waives certain requirements normally applicable to a leave of absence. The CARES Act also allows institutions to exclude from the calculation of a student's satisfactory academic progress any attempted credits not completed due to the COVID-19 emergency.

Other

Based on analysis of ASC 350 and ASC 360 during the three months ended March 31, 2020, we are currently not aware of any material impairments of our goodwill, indefinite-lived intangible assets or finite-lived assets. The Company will continue to assess the relevant criteria on a quarterly basis based on updated cash flow and market assumptions. Unfavorable changes in cash flow or market assumptions could result in impairment of these assets in future periods.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" and Note 1 to the Condensed Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Note 1 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

In addition, due to outbreak of COVID-19, we have reassessed those of our accounting policies whose application places the most significant demands on management's judgment, for instance, revenue recognition, allowance for doubtful account, goodwill, and long-lived assets, stock-based compensation, derivative instruments and hedging activity, borrowings, assumptions related to ROU assets, lease cost, income taxes and assets and obligations related to employee benefit plans. Such reassessments did not have a significant impact on our results of operations and cash flows for the periods presented.

Effect of Inflation

Inflation has not had a material effect on our operations.

Results of Continuing Operations for the Three Months Ended March 31, 2020

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

	Three Months Ended March 31,	
	2020	2019
Revenue	100.0%	100.0%
Costs and expenses:		
Educational services and facilities	43.2%	47.4%
Selling, general and administrative	58.7%	60.3%
Total costs and expenses	101.9%	107.7%
Operating loss	-1.9%	-7.7%
Interest expense, net	-0.5%	-0.9%
Loss from operations before income taxes	-2.4%	-8.6%
Provision for income taxes	0.1%	0.1%
Net loss	-2.5%	-8.7%

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Consolidated Results of Operations

Revenue. Revenue increased $6.8 million, or 10.7% to $70.0 million for the three months ended March 31, 2020 from $63.3 million in the prior year comparable period. The increase was the result of a 6.6% increase in average student population driven by starting the year with approximately 760 more students than in the prior year comparable period. Further contributing to the additional revenue was a 3.7% increase in average revenue per student.

Total student starts decreased 5.0% for the three months ended March 31, 2020 as compared to the prior year comparable period. The decline in student starts was primarily due to the onset of the COVID-19 pandemic that occurred in March of the current year. Student starts between January 1 and the end of February increased 13.9% and helped drive a 6.6% increase in average student population for the first quarter.

During the three months ended March 31, 2020, 324 students went on a leave of absence as a result of COVID-19. The majority of the students were near the end of their program and in externships that cannot be completed at this time. In addition, some of the students did not want to switch to an online, remote learning platform and are delaying their education until in-person classes resume. Any revenue related to these students will be deferred.

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

Educational services and facilities expense. Our educational services and facilities expense increased $0.3 million, or 0.9%, to $30.2 million for the three months ended March 31, 2020 from $30.0 million in the prior year comparable period. Increased costs were primarily the result of additional instructional expenses resulting from a larger average student population that increased 6.6% over the prior year quarter. Partially offsetting this increase were cost savings in facilities expense resulting from the successful negotiation of more favorable lease terms at two of our campuses and reduced depreciation expense in the current year driven by fully depreciated assets.

Educational services and facilities expense, as a percentage of revenue, decreased to 43.2% from 47.4% for the three months ended March 31, 2020 and 2019, respectively.

Selling, general and administrative expense. Our selling general and administrative expense increased $3.0 million, or 7.9% to $41.1 million for the three months ended March 31, 2020 from $38.1 million in the prior year comparable period. The additional expense was primarily driven by several factors including additional bad debt expense; higher employee costs and expenses incurred resulting from the COVID-19 pandemic. Partially offsetting these additional costs were nonrecurring strategic initiatives expenses incurred in the prior year.

Bad debt for the quarter increased partially as a result of higher accounts receivable from a delay in Title IV disbursements as we implemented new processes to comply with the Heightened Cash Monitoring 1 (“HCM1”) regulations related to the Company’s financial responsibility ratio. Under HCM1 rules, credit balances must be refunded to students before additional Title IV funds can be disbursed, leading to the delay during the quarter. We also experienced a decline in historical repayment rates coupled with a small delay in Title IV disbursements due to the operational transition related to COVID-19. In addition, March’s students collections were lower than usual believed to be mainly connected to the COVID-19 impact. Consequently, we are working with our students to provide financial relief if needed during the pandemic and have seen an improvement in collections towards normalized levels.

Higher employee costs were a result of the reinstatement of certain employee benefits.

COVID-19 costs of approximately $0.7 million were incurred in the quarter as the Company adapted and transitioned operations to an educational distance curriculum delivery format. Expenses incurred were primarily technology driven to support students and staff in a distance learning and working environment pursuant to stay-at-home orders. Additional expenses were also incurred to increase cleaning and disinfecting activities at campuses and workspaces to provide enhanced virus transmission prevention efforts for students and staff. The Company has received notification that it will receive funds this year under the recently enacted CARES Act to partially offset these costs.

Selling, general and administrative expenses, as a percentage of revenue, decreased to 58.7% for the three months ended March 31, 2020 from 60.3% in the prior year comparable period.

Net interest expense. Net interest expense for the three months ended March 31, 2020 decreased by $0.2 million, or 36%, to $0.4 million from $0.6 million in the prior year comparable period. The reduction in expense quarter over quarter is due to lower interest rates in combination with a lower loan balance outstanding in the current year.

Income taxes. Our provision for income taxes was less than $0.1 million for both March 31, 2020 and 2019. No federal or state income tax benefit was recognized for either period loss due to the recognition of a full valuation allowance. Income tax expense resulted from various minimal state tax expenses.

Segment Results of Operations

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

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

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

Transitional – The Transitional segment refers to campus operations which have been closed.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus's geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. As of March 31, 2020, no campuses have been categorized in the Transitional segment.

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

The following table present results for our three reportable segments for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,		
	2020	**2019**	**% Change**
Revenue:			
Transportation and Skilled Trades	$ 49,056	$ 44,325	10.7%
HOPS	20,985	18,938	10.8%
Total	$ 70,041	$ 63,263	10.7%
Operating Income (Loss):			
Transportation and Skilled Trades	$ 4,840	$ 1,817	166.4%
Healthcare and Other Professions	2,000	972	105.8%
Corporate	(8,186)	(7,653)	-7.0%
Total	$ (1,346)	$ (4,864)	72.3%
Starts:			
Transportation and Skilled Trades	1,720	1,821	-5.5%
Healthcare and Other Professions	996	1,038	-4.0%
Total	2,716	2,859	-5.0%
Average Population:			
Transportation and Skilled Trades	7,305	7,044	3.7%
Healthcare and Other Professions	3,987	3,545	12.5%
Total	11,292	10,589	6.6%
End of Period Population:			
Transportation and Skilled Trades	7,250	7,016	3.3%
Leave of Absense - COVID-19	(131)	0	100.0%
Transportation and Skilled Trades Excluding Leave of Absense - COVID-19	7,119	7,016	1.5%
Healthcare and Other Professions	4,021	3,664	9.7%
Leave of Absense - COVID-19	(193)	0	100.0%
Healthcare and Other Professions Excluding Leave of Absense - COVID-19	3,828	3,664	4.5%
Total	11,271	10,680	5.5%
Total Excluding Leave of Absense - COVID-19	10,947	10,680	2.5%

Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019

Transportation and Skilled Trades

Operating income increased $3.0 million to $4.8 million for the three months ended March 31, 2020 from $1.8 million in the prior year comparable period. The increase quarter over quarter was mainly driven by the following factors:

- Revenue increased $4.7 million, or 10.7% to $49.1 million for the three months ended March 31, 2020 from $44.3 million in the prior year comparable period. The increase was the result of a 3.7% increase in average student population driven by starting the year with approximately 360 more students than in the prior year comparable period. Further contributing to the additional revenue was a 6.3% increase in average revenue per student.
- Education services and facilities expense remained essentially flat at $20.6 million for the three months ended March 31, 2020 and 2019, respectively.
- Selling general and administrative expense increased $1.8 million, or 8.0% to $23.6 million for the three months ended March 31, 2020 from $21.9 million in the prior year comparable period. The increase was primarily due to bad debt expense discussed in detail above in the consolidated results of operations.

Student start results decreased 5.5% for the three months ended March 31, 2020 when compared to the prior year comparable period. The decline in student starts was primarily due to the onset of the COVID-19 pandemic that occurred in March of the current year. Student starts between January 1 and the end of February increased 3.5% and helped drive a 3.7% increase in average student population for the first quarter.

Healthcare and Other Professions

Operating income increased $1.0 million to $2.0 million for the three months ended March 31, 2020 from $1.0 million in the prior year comparable period. The increase quarter over quarter was mainly driven by the following factors:

- Revenue increased $2.0 million, or 10.8% to $21.0 million for the three months ended March 31, 2020 from $18.9 million in the prior year comparable period. The increase was the result of a 12.5% increase in average student population driven by starting the year with approximately 400 more students than in the prior year comparable period
- Educational services and facilities expense increased $0.3 million, or 3.3% to $9.7 million for the three months ended March 31, 2020 from $9.4 million in the prior year comparable period. The increase was primarily driven by additional instructional expenses resulting from a larger average student population that increased 12.5% over the prior year quarter. Partially offsetting the increase in expenses were reduced costs in books and tools expense and facilities expense. The reduction in books and tools expense was driven by a drop-off in starts in March 2020 due to the COVID-19 pandemic.
- Selling general and administrative expense increased $0.7 million, or 8.3% to $9.3 million for the three months ended March 31, 2020 from $8.6 million in the prior year comparable period. The increase in expense quarter over quarter was primarily driven by additional bad debt expense discussed in detail above in the consolidated results of operations.

Student start results decreased 4.0% for the three months ended March 31, 2020 when compared to the prior year comparable period. The decline in student starts was primarily due to the onset of the COVID-19 pandemic that occurred in March of the current year. Student starts between January 1 and the end of February increased 35.3% and helped drive a 12.5% increase in average student population for the first quarter.

Transitional

No campuses have been classified in the Transitional segment for the three months ending March 31, 2020 and 2019, respectively.

Corporate and Other

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses were $8.2 million and $7.7 million for the three months ended March 31, 2020 and 2019, respectively. The increase was primarily due to higher employee costs and $0.7 million incurred as a result of actions taken in response to the COVID-19 pandemic. Partially offsetting these additional costs were non-recurring strategic initiatives expenses incurred in the prior year. Higher employee costs were a result of the reinstatement of certain employee benefits. Additional costs incurred were a result of the transition of operations and education delivery to distance learning due to the COVID-19 pandemic. The Company has received notification that it will receive funds this year under the recently enacted CARES Act to partially offset these costs.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are for maintenance and expansion of our facilities and the development of new programs. Our principal sources of liquidity have been cash provided by operating activities and borrowings under our credit facility. The following chart summarizes the principal elements of our cash flow for each of the three months ended March 31, 2020 and 2019, respectively:

	Three Months Ended March 31,	
	2020	2019
Net cash used in operating activities	$ (11,947)	$ (10,922)
Net cash used in investing activities	(1,287)	(639)
Net cash used in financing activities	(15,669)	(24,204)

As of March 31, 2020, the Company had a net debt balance of $8.8 million compared to a net cash balance of $4.6 million at December 31, 2019. The net debt/cash balance is calculated as our cash, cash equivalents and both short and long-term restricted cash less both short and long-term portion of the credit agreement. The decrease in cash position was primarily attributable to the Company complying with HCM1 and delays in Title IV disbursements due to our switch to distance learning related to COVID-19.

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

Our primary source of cash is tuition collected from our students. The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The most significant source of student financing is Title IV Programs, which represented approximately 78% of our cash receipts relating to revenues in 2019. Pursuant to applicable regulations, students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other funding are not subject to a 31-day delay. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV Program financial aid is refunded according to federal, state and accrediting agency standards.

As a result of the significant amount of Title IV Program funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV Program funds that our students are eligible to receive or any restriction on our eligibility to receive Title IV Program funds would have a significant impact on our operations and our financial condition. See "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Operating Activities

Net cash used in operating activities was $11.9 million for the three months ended March 31, 2020 compared to net cash used in operating activities of $10.9 million in the prior year comparable period. The increase in cash used in operating activities is primarily due to a $1.6 million decrease in accounts receivable collections and advanced tuition payments coupled with $4.4 million of higher accounts payable and accrued expense payments, which were offset by a $3.7 million decrease in net loss.

Investing Activities

Net cash used in investing activities increased $0.6 million to $1.3 million for the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

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

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

Capital expenditures were 2% of revenues in 2019 and are expected to approximate 2% of revenues in 2020. We expect to fund future capital expenditures with cash generated from operating activities and borrowings under our credit facility.

Financing Activities

Net cash used in financing activities was $15.7 million for the three months ended March 31, 2020 compared to $24.2 million in the prior year comparable period. The decrease of $8.5 million was primarily due to decreased net payment on borrowings of $15.5 million for the three months ended March 31, 2020 as compared to $24.1 million in the prior year comparable period.

Net payments on borrowings consisted of: (a) total borrowing to date under our secured credit facility of $11.0 million; and (b) $26.5 million in total repayments made by the Company. See Part II, Item 1A. “Risk Factors — COVID-19 Pandemic” in this Quarterly Report on Form 10-Q for risks associated with COVID-19.

Credit Facility with Sterling National Bank

On November 14, 2019, the Company entered into a new senior secured credit agreement (the “Credit Agreement”) with its lender, Sterling National Bank (the “Lender”), pursuant to which the Company obtained a new credit facility in the aggregate principal amount of up to $60 million (the “Credit Facility”).

The Credit Facility is comprised of four facilities: a $20 million senior secured term loan maturing on December 1, 2024 (the “Term Loan”), with monthly interest and principal payments based on 120-month amortization with the outstanding balance due on the maturity date; a $10 million senior secured delayed draw term loan maturing on December 1, 2024 (the “Delayed Draw Term Loan”), with monthly interest payments for the first 18 months and thereafter monthly payments of interest and principal based on 120-month amortization and all balances due on the maturity date; a $15 million senior secured committed revolving line of credit providing a sublimit of up to $10 million for standby letters of credit maturing on November 13, 2022 (the “Revolving Loan”), with monthly payments of interest only; and a $15 million senior secured non-restoring line of credit maturing on January 31, 2021 (the “Line of Credit Loan”). The Credit Agreement gives the Company the right to permanently terminate, in its entirety, the Revolving Loan or the Line of Credit Loan or permanently reduce the amount available for borrowing under the Revolving Loan or the Line of Credit Loan. In April 2020, the Company terminated the Line of Credit Loan.

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

At the closing of the Credit Facility, the Lender advanced the Term Loan to the Company, the net proceeds of which was $19.7 million after deduction of the Lender’s origination fee in the amount of $0.3 million and other Lender fees and reimbursements to the Lender that are customary for facilities of this type. The Company used the net proceeds of the Term Loan, together with cash on hand, to repay the existing credit facility and transaction expenses.

Pursuant to the terms of the Credit Agreement, letters of credit issued under the Revolving Loan reduce dollar for dollar the availability of borrowings under the Revolving Loan. Borrowings under the Line of Credit Loan are to be secured by cash collateral.

Borrowing under the Delayed Draw Term Loan is available during the period commencing on the closing date of the Credit Facility and ending on May 31, 2021.

Accrued interest on each loan under the Credit Facility will be payable monthly in arrears. The Term Loan and the Delayed Draw Term Loan will bear interest at a floating interest rate based on the then one month London Interbank Offered Rate (“LIBOR”) plus 3.50%. At the closing of the Credit Facility, the Company entered into a swap transaction with the Lender for 100% of the principal balance of the Term Loan, which matures on the same date as the Term Loan. pursuant to a swap agreement between the Company and the Lender. At the end of the borrowing availability period for the Delayed Draw Term Loan, the Company is required to enter into a swap transaction with the Lender for 100% of the principal balance of the Delayed Draw Term Loan, which will mature on the same date as the Delayed Draw Term Loan, pursuant to a swap agreement between the Company and the Lender or the Lender’s affiliate. The Term Loan and Delayed Draw Term Loan are subject to a LIBOR interest rate floor of .25% if there is no swap agreement.

Revolving Loans bear interest at a floating interest rated based on the then LIBOR plus an indicative spread determined by the Company’s leverage as defined in the Credit Agreement or, if the borrowing of a Revolving Loan is to be repaid within 30 days of such borrowing, the Revolving Loan will accrue interest at the Lender’s prime rate plus .50% with a floor of 4.0%. Line of Credit Loans will bear interest at a floating interest rated based on the Lender’s prime rate of interest. Revolving Loans are subject to a LIBOR interest rate floor of .00%.

Letters of credit will be charged an annual fee equal to (i) an applicable margin determined by the leverage ratio of the Company less (ii) .25%, paid quarterly in arrears, in addition to the Lender's customary fees for issuance, amendment and other standard fees. Letters of credit totaling $4 million that were outstanding under the existing credit facility are treated as letters of credit under the Revolving Loan.

Under the terms of the Credit Agreement, the Company may prepay the Term Loan and/or the Delayed Draw Term Loan in full or in part without penalty except for any amount required to compensate the Lender for any swap breakage or other costs incurred in connection with such prepayment. The Lender receives an unused facility fee of 0.50% per annum payable quarterly in arrears on the unused portions of the Revolving Loan and the Line of Credit Loan.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants (including financial covenants that (i) restrict capital expenditures, (ii) restrict leverage, (iii) require maintaining minimum tangible net worth, (iv) require maintaining a minimum fixed charge coverage ratio and (v) require the maintenance of a minimum of $5 million in quarterly average aggregate balances on deposit with the Lender, which, if not maintained, will result in the assessment of a quarterly fee of $12,500), as well as events of default customary for facilities of this type. As of March 31, 2020 the Company was in compliance with all debt covenants. As of March 31, 2020 and December 31, 2019, the Company had $19.3 million and $34.8 million, respectively, outstanding under the Credit Facility; offset by $0.8 million and $0.8 million of deferred finance fees, respectively. In January 2020, the Company repaid the $15.0 million outstanding on the Line of Credit Loan which was fully cash collateralized. As of March 31, 2020 and December 31, 2019, letters of credit in the aggregate outstanding principal amount of $4.0 million and $4.0 million, respectively, were outstanding under the Credit Facility.

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

	March 31, 2020	December 31, 2019
Credit agreement	$ 19,333	$ 34,833
Deferred Financing Fees	(757)	(805)
	18,576	34,028
Less current maturities	(2,000)	(2,000)
	$ 16,576	$ 32,028

As of March 31, 2020, we had outstanding loan commitments to our students of $71.9 million, as compared to $75.5 million at December 31, 2019.

Contractual Obligations

Current portion of Long-Term Debt, Long-Term Debt and Lease Commitments. As of March 31, 2020, our current portion of long-term debt and long-term debt consisted of borrowings under our Credit Facility. We lease offices, educational facilities and various items of equipment for varying periods through the year 2030 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 March 31, 2020 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit facility*	$ 19,333	$ 2,000	$ 4,000	$ 13,333	$ -
Operating leases	75,696	15,427	24,137	18,136	17,996
Interest on term loan**	3,791	1,001	1,676	1,114	-
Total contractual cash obligations	$ 98,820	$ 18,428	$ 29,813	$ 32,583	$ 17,996

* Excludes deferred finance fees of $0.8 million.
** Includes fixed rate interest payment resulting from the cash flow hedge.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2020, except for surety bonds. As of March 31, 2020, we posted surety bonds in the total amount of approximately $12.4 million. We are required to post surety bonds on behalf of our campuses and education representatives with multiple states to maintain authorization to conduct our business. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

Seasonality

Our revenue and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. Student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our first and second quarters and we have experienced larger class starts in the third quarter and higher student attrition in the first half of the year. Our second half growth is largely dependent on a successful high school recruiting season. We recruit our high school students several months ahead of their scheduled start dates and, thus, while we have visibility on the number of students who have expressed interest in attending our schools, we cannot predict with certainty the actual number of new student enrollments and the related impact on revenue. Our expenses, however, typically do not vary significantly over the course of the year with changes in our student population and revenue. During the first half of the year, we make significant investments in marketing, staff, programs and facilities to meet our second half of the year targets and, as a result, such expenses do not fluctuate significantly on a quarterly basis. To the extent new student enrollments, and related revenue, in the second half of the year fall short of our estimates, our operating results could be negatively impacted. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change as a result of new school openings, new program introductions, and increased enrollments of adult students and/or acquisitions.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. Our obligations under our credit facility are secured by a lien on substantially all of our assets and any assets that we or our subsidiaries may acquire in the future. As of March 31, 2020, we had $19.3 million outstanding under Credit Agreement for which we hedged 57% of the amount outstanding by entering into a cash flow hedge with a fixed interest rate of 5.36%.

Based on our remaining unhedged outstanding debt balance as of March 31, 2020, a change of one percent in the interest rate would have caused a change in our interest expense of approximately $0.2 million, or $0.01 per basic share, on an annual basis. Changes in interest rates could have an impact on our operations, which are greatly dependent on our students' ability to obtain financing and, as such, any increase in interest rates could greatly impact our ability to attract students and have an adverse impact on the results of our operations.

The use of the derivative instrument exposes us to credit risk if the counterparty fails to perform when the fair value of a derivative instrument contract is positive. If the counterparty fails to perform, collateral is not required by any party whether derivatives are in an asset or liability position.

Item 4. CONTROLS AND PROCEDURES

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

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

As a result of the COVID-19 pandemic, certain employees of the Company began working remotely in March 2020 but these changes to the working environment did not have a material effect on the Company's internal control over financial reporting. There was no other change in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, financial condition, results of operations or cash flows. Information regarding certain specific legal proceedings in which the Company is involved is contained in Part I, Item 3, and in Note 15 to the notes to the Condensed Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Unless otherwise indicated in this report, all proceedings discussed in the earlier report which are not indicated therein as having been concluded, remain outstanding as of March 31, 2020.

Item 1 A. RISK FACTORS

Our business activities involve a variety of risks. In addition to the risk factor below, readers should carefully consider the risk factors disclosed in Part I, Item 1A. "Risk Factors" of our 2019 Form 10-K.

The pandemic of respiratory disease caused by COVID-19 could have a materially adverse impact on our business, results of operations, financial condition and/or cash flows. The extent of the impact of the COVID-19 pandemic will depend on future developments, which are highly uncertain and largely beyond our control, including, among others: the scope and duration of the pandemic; the number of our employees, students, and vendors adversely affected by the pandemic; the broader public health and economic dislocations resulting from the pandemic; any legislative or regulatory changes or other actions taken by governmental authorities to limit the public health, financial and economic impacts of the COVID-19 pandemic; any reputational damage related to the perception of our or our industry's response to the COVID-19 pandemic; and the impact of the pandemic on local and U.S. economies.

The COVID-19 pandemic has caused significant disruption to the U.S. and world economies, including the closing of many schools and businesses for extended periods of time, significantly higher unemployment and underemployment, significantly lower interest rates and equity market valuations, and extreme volatility in the U.S. and world financial markets. We expect that the impact of the COVID-19 pandemic on the U.S. economy will be significant during the remainder of 2020 and that it could materially adversely affect our results of operations and financial condition, and/or our cash flows.

As described in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Impact of COVID-19 on the Company" in this Quarterly Report on Form 10-Q, due to timing of stay-at-home orders by many states in which our schools are located and the scheduled timing of certain program start dates, some program start dates were delayed from the first quarter of 2020 until the second quarter of 2020. The delay in program start dates caused the Company to have 143 less student starts for the three months ended March 31, 2020 compared to the three months ended 2019.

As of March 31, 2020, the Company had 324 students on leave of absence due to COVID-19. The majority of these students were at the end of their program and were on externship which they were not able to complete. The Company is currently working on adding remote externship opportunities so that these students can complete their externships. A smaller portion of the students on leave of absence are due to the students not wanting to undertake their programs through distance learning but are expected to return to their programs when in-person schooling reopens.

The Company has extended the length and graduation dates of three programs as there is only a small percentage of these three programs that can be taught through distance learning.

The Company has campuses where students live in dorms that are operated by either the Company itself, Collegiate Housing or other housing options. The majority of the students have returned home and their dorm charges have been reversed. In addition, at campuses where students have meal plans, Company cafeterias have been closed and all charges for meal plans have been reversed. For students that remain in dorms, the Company has given the students gift cards to assist in replacing their meal plans.

For the three months ended March 31, 2020, the Company's expenses included approximately $0.7 million due to costs related to actions taken in response to COVID-19.

In addition, our employees have had to move to a work-from-home environment. We have never had to run our operations entirely remotely for an extended period of time, and it is possible we will encounter significant challenges to running our business. Unanticipated issues arising from handling personal, confidential and other information from a less efficient work-from-home environment could adversely impact our operations and lead to greater risk for us.

The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition and/or cash flows will depend on future developments, which are highly uncertain and largely beyond our control, including, among others: the scope and duration of the pandemic; the number of our employees, students, and vendors adversely affected by the pandemic; the broader public health and economic dislocations resulting from the pandemic; any legislative or regulatory changes or other actions taken by governmental authorities to limit the public health, financial and economic impacts of the COVID-19 pandemic; any reputational damage related to the public perception of our or our industry's response to the COVID-19 pandemic; and the impact of the COVID-19 pandemic on local, and U.S. economies. However, as with many other businesses, the impact of COVID-19 on our business could be material and adverse.

Item 6. EXHIBITS

Exhibit Number	Description
3.1*	Amended and Restated Bylaws of the Company.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements from Lincoln Educational Services Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.

***** Filed herewith

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

SIGNATURES

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

		LINCOLN EDUCATIONAL SERVICES CORPORATION
Date: May 13, 2020	By:	/s/ Brian Meyers
		Brian Meyers Executive Vice President, Chief Financial Officer and Treasurer

Exhibit Index

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* Filed herewith

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Exhibit 3.1

AMENDED AND RESTATED BYLAWS
OF
LINCOLN EDUCATIONAL SERVICES CORPORATION

(as amended through April 24, 2020)

ARTICLE I

OFFICES

SECTION 1.01 Registered Office. The registered office of Lincoln Educational Services Corporation (the "Corporation") in the State of New Jersey shall be at the principal office of the corporation and the registered agent in charge thereof shall be Alexandra Luster.

SECTION 1.02 Other Offices. The Corporation may also have an office or offices at any other place or places within or without the State of New Jersey as the Board of the Corporation (the "Board") may from time to time determine or the business of the Corporation may from time to time require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

SECTION 2.01 Annual Meetings. The annual meeting of shareholders of the Corporation for the election of directors of the Corporation, and for the transaction of such other business as may properly come before such meeting, shall be held at such place, date and time as shall be fixed by the Board and designated in the notice or waiver of notice of such annual meeting. The place of the meeting may be within or without the State of New Jersey or, to the extent provided by law, in part or solely by means of remote communication, as may be determined by the Board.

SECTION 2.02 Special Meetings. Special meetings of shareholders for any purpose or purposes may be called by the Chairman of the Board or the President or by the Board pursuant to a resolution duly adopted by a majority of the members of the entire Board, to be held at such place, date and time as shall be designated in the notice or waiver of notice thereof or, to the extent provided by law, in part or solely by means of remote communication, as may be determined by the Board. Only business within the purposes described in the notice required by Section 2.03 of this Article II may be conducted at the special meeting. The Superior Court, at the request of holder or holders of not less than 10% of the shares entitled to vote at the meeting, may call a special meeting of shareholders of the Corporation pursuant to Section 14A:5-3 of the New Jersey Business Corporation Act ("NJBCA").

SECTION 2.03 Notice and Business of Meetings. (a) General. Except as otherwise provided by law, written notice of each meeting of shareholders shall be given either by delivering a notice personally or mailing a notice to each shareholder of record entitled to vote thereat. If mailed, the notice shall be directed to the shareholder in a postage-prepaid envelope at his address as it appears on the stock books of the Corporation unless, prior to the time of mailing, he or she shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Notice of each meeting of shareholders shall be in such form as is approved by the Board and shall state the purpose or purposes for which the meeting is called, the date and time when and the place where it is to be held, and/or the means of remote communications, if any, and shall be delivered personally or mailed not more than sixty (60) days and not less than ten (10) days before the day of the meeting. Except as otherwise provided by law, the business which may be transacted at any special meeting of shareholders shall consist of and be limited to the purpose or purposes so stated in such notice. The Secretary or an Assistant Secretary or the transfer agent of the Corporation shall, after giving such notice, make an affidavit stating that notice has been given, which shall be filed with the minutes of such meeting.

(a) Advance Notice Provisions for Business to Be Transacted at Annual Meeting. (i) No business may be transacted at an annual meeting of shareholders, other than business that is either (A) specified in the notice of meeting (or any supplement thereto) given by the President or the Chairman or at the direction of the Board (or any duly authorized committee thereof), (B) otherwise properly brought before the annual meeting by or at the direction of the Board (or any duly authorized committee thereof) or (C) otherwise properly brought before the annual meeting by any shareholder of the Corporation who (1) is a shareholder of record on both (x) the date of the giving of the notice provided for in this Section 2.03 and (y) the record date for the determination of shareholders entitled to vote at such annual meeting, (2) complies with the notice procedures set forth in this Section 2.03(b) and (3) meets the other qualifications established from time to time by the U.S. Securities and Exchange Commission.

(i) In addition to any other applicable requirements and unless otherwise provided by law, for business to be properly brought before an annual meeting by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

(A) To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than one hundred twenty (120) days nor more than one hundred fifty (150) days prior to the first anniversary of the date the proxy statement was released to shareholders for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from such anniversary date, notice by the shareholder to be timely must be delivered not earlier than the one hundred fiftieth (150th) day prior to such annual meeting and not later than the close of business on the later of the one hundred twentieth (120th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made; provided further that for purposes of the annual meeting of shareholders held following the end of the fiscal year ending on December 31, 2005, the date the proxy statement was released to shareholders for the preceding year's annual meeting shall be deemed to be April 30, 2005.

(B) To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting (1) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and record address of such shareholder, (3) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (4) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (5) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. As used in these by-laws, "beneficially owned" means all shares which such person is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(ii) No business shall be conducted at the annual meeting of shareholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 2.03, provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 2.03 shall be deemed to preclude discussion by any shareholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

(b) Advance Notice Provisions for Election of Directors. (i) In addition to any other applicable requirements and unless otherwise provided by law, for a nomination for election of a director to be made by a shareholder of the Corporation, such shareholder must (A) be a shareholder of record on both (1) the date of the giving of the notice provided for in this Section 2.03 and (2) the record date for the determination of shareholders entitled to vote at such annual meeting and (B) have given timely notice thereof in proper written form to the Secretary of the Corporation. If a shareholder is entitled to vote only for a specific class or category of directors at a meeting of the shareholders, such shareholder's right to nominate one or more persons for election as a director at the meeting shall be limited to such class or category of directors.

(ii) To be timely in connection with the annual meeting of the shareholders, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than one hundred twenty (120) days nor more than one hundred fifty (150) days prior to the first anniversary of the date the proxy statement was released to shareholders for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from such anniversary date, notice by the shareholder to be timely must be delivered not earlier than the one hundred fiftieth (150th) day prior to such annual meeting and not later than the close of business on the later of the one hundred twentieth (120th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made; provided further that for purposes of the annual meeting of shareholders held following the end of the fiscal year ending on December 31, 2005, the date the proxy statement was released to shareholder's for the preceding year's annual meeting shall be deemed to be April 30, 2005. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board, any shareholder entitled to vote for the election of such director(s) at such meeting and satisfying the requirements specified in Section 2.03(c)(i) may nominate a person or persons (as the case may be) for election to such position(s) as are specified in the Corporation's notice of such meeting, but only if the shareholder notice required by Section 2.03(c)(iii) hereof shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the tenth (10th) day following the first day on which the date of the special meeting and either the names of all nominees proposed by the Board to be elected at such meeting or the number of directors to be elected shall have been publicly announced.

(iii) To be in proper written form, a shareholder's notice to the Secretary must be set forth (A) as to each person whom the shareholder proposes to nominate for election as a director (1) the name, age, business address and residence address of the person, (2) the principal occupation or employment of the person, (3) the class or series and number of shares of capital stock of the Corporation, if any, which are owned beneficially or of record by the person and (4) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (B) as to the shareholder giving notice (1) the name and record address of such shareholder, (2) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (3) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (4) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to nominate the person(s) named in its notice and (5) any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

(iv) No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.03(c). If the chairman of an annual meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

(v) This Section 2.03(c) shall not apply to any nomination of a director in an election in which only the holders of one or more series of Preferred Stock of the Corporation issued pursuant to Article IV of the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation") are entitled to vote (unless otherwise provided in the terms of such series of Preferred Stock).

(c) Definition of Publicly Announced. For purposes of this Section 2.03, a matter shall be deemed to have been “publicly announced” if such matter is disclosed in a press release reported by the Dow Jones News Service, the Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission.

SECTION 2.04 Waiver of Notice. Notice of any annual or special meeting of shareholders need not be given to any shareholder who files a written waiver of notice with the Secretary, signed by the person entitled to notice, whether before or after such meeting. Neither the business to be transacted at, nor the purpose of, any meeting of shareholders need be specified in any written waiver of notice thereof. Attendance of a shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of said meeting the transaction of any business on the grounds that the notice of such meeting was inadequate or improperly given.

SECTION 2.05 Adjournments. Whenever a meeting of shareholders, annual or special, is adjourned to another date, time or place, notice need not be given of the adjourned meeting if the date, time and place thereof are announced at the meeting at which the adjournment is taken. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder entitled to vote thereat. At the adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

SECTION 2.06 Quorum. Except as otherwise provided by law or the Certificate of Incorporation, the recordholders of a majority of the shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at all meetings of shareholders, whether annual or special. In the absence of a quorum, any meeting of shareholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The shareholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all action taken by the holders of a majority of the vote cast, excluding abstentions, at any meeting at which a quorum is present shall be valid and binding upon the Corporation; provided, however, that directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of the votes cast, including abstentions, by the holders of shares of such class or classes or series shall be the act of such class or classes or series.

SECTION 2.07 Voting. Except as otherwise provided in the Certificate of Incorporation, each shareholder entitled to vote at any meeting of shareholders shall be entitled to one vote for each share of stock held by such shareholder which has voting power upon the matter in question. The ability of the shareholders to engage in cumulative voting is specifically denied. If the Certificate of Incorporation provides for more or less than one vote for any share on any matter, every reference in these Bylaws to a majority or other proportion of shares of stock shall refer to such majority or other proportion of the votes of such shares of stock. Each shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for such shareholder by proxy, but no such proxy shall be voted or acted upon after eleven months from its date, unless the proxy provides for a longer period. Such proxy shall be filed with the Secretary before such meeting of shareholders. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power, regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally pursuant to Section 14A:5-19 of the NJBCA. A shareholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person by written ballot or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary. Voting at meetings of shareholders need not be by written ballot unless so directed by the chairman of the meeting or the Board or otherwise required by law.

SECTION 2.08 Action Without Meeting. Action may be taken by the shareholders without a meeting only by written consent adopted by all the stock holders entitled to vote thereon in accordance with Section 14A:5-6 of the NJBCA.

SECTION 2.09 Organization. (a) At every meeting of shareholders, the Chairman of the Board, or, if a Chairman has not been appointed or is absent, the Chief Executive Officer, or if a Chief Executive Officer has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the shareholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his or her absence, an Assistant Secretary directed to do so by the Chief Executive Officer, or President, shall act as secretary of the meeting.

(b) The Board shall be entitled to make such rules or regulations for the conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to shareholders of record of the Corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE III

BOARD

SECTION 3.01 General Powers. The business and affairs of the Corporation shall be managed by the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Certificate of Incorporation or these Bylaws directed or required to be exercised or done by shareholders.

SECTION 3.02 Number and Term of Office. The number of directors constituting the Board shall be the number, not less than three nor more than 11, as shall be fixed from time to time by the Board. Directors need not be shareholders. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the shareholders called for that purpose in the manner provided in these Bylaws. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

SECTION 3.03 Resignation. Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board. If no such specification is made, it shall be deemed effective upon receipt by the Secretary. When one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until his successor shall have been duly elected and qualified.

SECTION 3.04 Removal. Subject to the rights of the holders of any series of Preferred Stock then outstanding, (a) any director, or the entire Board, may be removed from office at any time, but only for cause, by the affirmative vote of the holders of record of outstanding shares representing at least a majority of the voting power of all the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class, and (b) any director may be removed from office at any time, but only for cause, by the affirmative vote of a majority of the entire Board.

SECTION 3.05 Vacancies. Unless otherwise provided in the Certificate of Incorporation, any vacancies on the Board resulting from death, resignation, disqualification, removal or other causes, and any newly created directorships resulting from any increase in the number of directors, shall be filled only by the affirmative vote of a majority of the remaining directors, even though less than a quorum of the Board. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director’s successor shall have been elected and qualified. A vacancy on the Board shall be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director. Notwithstanding the above, in the event that the Board shall fail to fill such a vacancy, the shareholders may fill such vacancy at an annual shareholders meeting or at a special meeting of shareholders called for that purpose.

SECTION 3.06 Meetings. (a) Annual Meetings. The annual meeting of the Board shall be held immediately before or after the annual meeting of shareholders and may be at the place where such meeting is held. No notice of an annual meeting of the Board shall be necessary and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Regular Meetings. Except as hereinafter otherwise provided, regular meetings of the Board shall be held in the office of the Corporation required to be maintained pursuant to Section 1.02 hereof. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board may also be held at any place within or without the State of New Jersey which has been designated by resolution of the Board or the written consent of all directors.

(c) Special Meetings. Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board may be held at any time and place within or without the State of New Jersey whenever called by the Chairman of the Board, the President, the Chief Financial Officer or any two of the directors.

(d) Telephone Meetings. Any member of the Board, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(e) Notice of Meetings. Notice of the time and place of all special meetings of the Board shall be orally or in writing, by telephone, facsimile, electronic mail, telegraph or telex, during normal business hours, at least twenty-four (24) hours before the date and time of the meeting, or sent in writing to each director by first class mail, charges prepaid, at least three (3) days before the date of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, without protesting the lack of proper notice prior to the conclusion of the meeting.

(f) Waiver of Notice. The transaction of all business at any meeting of the Board, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present shall sign a written waiver of notice. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting.

(g) Quorum and Manner of Acting. A majority of the total number of directors then in office shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of those directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board, except as otherwise expressly required by law, the Certificate of Incorporation or these Bylaws. In the absence of a quorum for any such meeting, a majority of the directors present thereat may adjourn such meeting from time to time for up to ten (10) days until a quorum shall be present if the time and place of the adjourned meeting is given at the original meeting.

(h) Organization. At each meeting of the Board, one of the following shall act as chairman of the meeting and preside, in the following order of precedence:

(i) the Chairman;

(ii) the President;

(iii) any director chosen by a majority of the directors present.

The Secretary or, in the case of his absence, any person (who shall be an Assistant Secretary, if an Assistant Secretary is present) whom the chairman of the meeting shall appoint shall act as secretary of such meeting and keep the minutes thereof.

SECTION 3.07 Committees of the Board. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more directors. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. Any such committee, to the extent provided in the resolution of the Board designating such committee, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation subject to applicable law, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that no such committee shall have such power or authority in reference to making, altering or replacing any bylaw of the corporation, electing or appointing any director or removing any officer or director, submitting to shareholders any action that requires shareholder approval or amending or repealing any resolutions theretofore adopted by the Board which by its terms is amendable or repealable only by the Board. Each committee of the Board shall keep regular minutes of its proceedings and report the same to the Board at the next following Board meeting following the committee meeting; provided, however, that when the meeting of the Board is held within two days after the committee meeting, such report shall, if not made at the first meeting, be made to the Board at its second meeting following such committee meeting.

SECTION 3.08 Directors' Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, without prior notice and without a vote, if a consent in writing or by electronic transmission, setting forth the action so taken, shall be signed by all the members of the Board or such committee and such consent or electronic transmission or transmissions is filed with the minutes of the proceedings of the Board or such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

SECTION 3.09 Compensation. Unless otherwise restricted by the Certificate of Incorporation, the Board may determine the compensation of directors by an affirmative vote of a majority of directors in office. In addition, as determined by the Board, directors may be reimbursed by the Corporation for their expenses, if any, in the performance of their duties as directors. No such compensation or reimbursement shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 3.10 Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, limited liability company, joint venture, trust, association or other organization or other entity in which one or more of its directors or officers serve as directors, officers, trustees or in a similar capacity or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because the directors' or officers' votes are counted for such purpose, if: (i) the material facts as to the directors' or officers' relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum or by unanimous written consent, provided, in either case, at least one director so consenting is disinterested; or (ii) the material facts as to the directors' or officers' relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by a vote of the shareholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV

OFFICERS

SECTION 4.01 Officers. The officers of the Corporation shall be the Chairman, the Chief Executive Officer, the President, the Chief Operating Officer, the Secretary and a Treasurer and may include one or more Vice Presidents and one or more Assistant Secretaries and one or more Assistant Treasurers. Any two or more offices may be held by the same person.

SECTION 4.02 Authority and Duties. All officers shall have such authority and perform such duties in the management of the Corporation as may be provided in these Bylaws or, to the extent not so provided, by resolution of the Board.

SECTION 4.03 Term of Office, Resignation and Removal. (a) Each officer shall be appointed by the Board and shall hold office for such term as may be determined by the Board. Each officer shall hold office until his successor has been appointed and qualified or his earlier death or resignation or removal in the manner hereinafter provided. The Board may require any officer to give security for the faithful performance of his duties.

(a) Any officer may resign at any time by giving written notice to the Board, the Chairman, the Chief Executive Officer or the Secretary. Such resignation shall take effect at the time specified in such notice or, if the time be not specified, upon receipt thereof by the Board, the Chairman, the Chief Executive Officer or the Secretary, as the case may be. Unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

(b) All officers and agents appointed by the Board shall be subject to removal, with or without cause, at any time by the Board or, if elected by shareholders, by the action of the recordholders of a majority of the shares entitled to vote thereon.

SECTION 4.04 Vacancies. Any vacancy occurring in any office of the Corporation, for any reason, shall be filled by action of the Board. Unless earlier removed pursuant to Section 4.03 hereof, any officer appointed by the Board to fill any such vacancy shall serve only until such time as the unexpired term of his predecessor expires unless reappointed by the Board.

SECTION 4.05 The Chairman. The Chairman shall have the power to call special meetings of shareholders, to call special meetings of the Board and, if present, to preside at all meetings of shareholders and all meetings of the Board. The Chairman shall perform all duties incident to the office of Chairman of the Board and all such other duties as may from time to time be assigned to him by the Board or these Bylaws.

SECTION 4.06 The Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and shall have general and active management and control of the business and affairs of the Corporation, subject to the control of the Board, and shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer shall perform all duties incident to the office of Chief Executive Officer and all such other duties as may from time to time be assigned to him by the Board or these Bylaws.

SECTION 4.07 The President. The President shall perform such duties as may be prescribed from time to time by the Chairman, the Chief Executive Officer or the Board, and in the absence or disability of the Chief Executive Officer, shall perform the duties and exercise the powers of the Chief Executive Officer.

SECTION 4.08 The Chief Operating Officer. The Chief Operating Officer shall perform such duties as may be prescribed from time to time by the Chairman, the Chief Executive Officer or the Board.

SECTION 4.09 Vice Presidents. Vice Presidents, if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Chief Executive Officer and perform such other duties as the Board or the Chief Executive Officer shall prescribe.

SECTION 4.10 The Secretary. The Secretary shall, to the extent practicable, attend all meetings of the Board and all meetings of shareholders and shall record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform the same duties for any committee of the Board when so requested by such committee. He or she shall give or cause to be given notice of all meetings of shareholders and of the Board, shall perform such other duties as may be prescribed by the Board, the Chairman or the Chief Executive Officer and shall act under the supervision of the Chairman. He or she shall keep in safe custody the seal of the Corporation and affix the same to any instrument that requires that the seal be affixed to it and which shall have been duly authorized for signature in the name of the Corporation and, when so affixed, the seal shall be attested by his signature or by the signature of the Treasurer of the Corporation (the "Treasurer") or an Assistant Secretary or Assistant Treasurer of the Corporation. He or she shall keep in safe custody the certificate books and shareholder records and such other books and records of the Corporation as the Board, the Chairman or the Chief Executive Officer may direct and shall perform all other duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board, the Chairman or the Chief Executive Officer.

SECTION 4.11 Assistant Secretaries. Assistant Secretaries of the Corporation ("Assistant Secretaries"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Secretary and perform such other duties as the Board or the Secretary shall prescribe, and, in the absence or disability of the Secretary, shall perform the duties and exercise the powers of the Secretary.

SECTION 4.12 The Treasurer. The Treasurer shall have the care and custody of all the funds of the Corporation and shall deposit such funds in such banks or other depositories as the Board, or any officer or officers, or any officer and agent jointly, duly authorized by the Board, shall, from time to time, direct or approve. He or she shall disburse the funds of the Corporation under the direction of the Board and the Chief Executive Officer. He or she shall keep a full and accurate account of all moneys received and paid on account of the Corporation and shall render a statement of his accounts whenever the Board, the Chairman or the Chief Executive Officer shall so request. He or she shall perform all other necessary actions and duties in connection with the administration of the financial affairs of the Corporation and shall generally perform all the duties usually appertaining to the office of treasurer of a corporation. When required by the Board, he or she shall give bonds for the faithful discharge of his duties in such sums and with such sureties as the Board shall approve.

SECTION 4.13 Assistant Treasurers. Assistant Treasurers of the Corporation ("Assistant Treasurers"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Treasurer and perform such other duties as the Board or the Treasurer shall prescribe, and, in the absence or disability of the Treasurer, shall perform the duties and exercise the powers of the Treasurer.

ARTICLE V

CHECKS, DRAFTS, NOTES, AND PROXIES

SECTION 5.01 Checks, Drafts and Notes. All checks, drafts and other orders for the payment of money, notes and other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall be determined, from time to time, by resolution of the Board.

SECTION 5.02 Execution of Proxies. The Chairman or the Chief Executive Officer, or, in the absence or disability of both of them, the President or any Vice President, may authorize, from time to time, the execution and issuance of proxies to vote shares of stock or other securities of other corporations held of record by the Corporation and the execution of consents to action taken or to be taken by any such corporation. All such proxies and consents, unless otherwise authorized by the Board, shall be signed in the name of the Corporation by the Chairman, the Chief Executive Officer, the President or any Vice President.

ARTICLE VI

SHARES AND TRANSFERS OF SHARES

SECTION 6.01 Certificates Evidencing Shares. Shares shall be evidenced by certificates in such form or forms as shall be approved by the Board; provided that the Board may provide by resolution or resolutions that some or all of any class or classes or series of stock shall be uncertificated shares; provided further that any such resolution shall not apply to any shares represented by a certificate theretofore issued until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board every holder of uncertificated shares shall be entitled to have a certificate signed by or in the name of the Corporation (as provided below) representing the number of shares and setting forth the information set forth in NJBCA 14A:7-11(6). Certificates shall be issued in consecutive order and shall be numbered in the order of their issue, and shall be signed by the Chairman, the Vice Chairman, the Chief Executive Officer, the President or any Vice President and by the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer. Any or all of the signatures on the certificate may be a facsimile. In the event any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to hold such office, transfer agent or registrar or to be employed by the Corporation before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such officer had held such office on the date of issue. Certificates representing shares of stock of the Corporation may bear such legends regarding restrictions on transfer or other matters as any officer or officers of the Corporation may determine to be lawful or appropriate. The Corporation shall not have the power to issue a certificate in bearer form.

SECTION 6.02 Stock Ledger. A stock ledger in one or more counterparts shall be kept by the Secretary, in which shall be recorded the name and address of each person, firm or corporation owning the shares evidenced by each certificate evidencing shares issued by the Corporation, the number of shares evidenced by each such certificate, the date of issuance thereof and, in the case of cancellation, the date of cancellation. Except as otherwise expressly required by law, the person in whose name shares stand on the stock ledger of the Corporation shall be deemed the owner and recordholder thereof for all purposes.

SECTION 6.03 Transfers of Shares. Registration of transfers of shares shall be made only in the stock ledger of the Corporation upon request of the registered holder of such shares, or of his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, and upon the surrender of the certificate or certificates evidencing such shares properly endorsed or accompanied by a stock power duly executed, together with such proof of the authenticity of signatures as the Corporation may reasonably require.

SECTION 6.04 Addresses of Shareholders. Each shareholder shall designate to the Secretary an address at which notices of meetings and all other corporate notices may be served or mailed to such shareholder, and, if any shareholder shall fail to so designate such an address, corporate notices may be served upon such shareholder by mail directed to the mailing address, if any, as the same appears in the stock ledger of the Corporation or at the last known mailing address of such shareholder.

SECTION 6.05 Lost, Destroyed and Mutilated Certificates. Each recordholder of shares shall promptly notify the Corporation of any loss, destruction or mutilation of any certificate or certificates evidencing any share or shares of which he or she is the recordholder. The Board may, in its discretion, cause the Corporation to issue a new certificate in place of any certificate theretofore issued by it and alleged to have been mutilated, lost, stolen or destroyed, upon the surrender of the mutilated certificate or, in the case of loss, theft or destruction of the certificate, upon satisfactory proof of such loss, theft or destruction, and the Board may, in its discretion, require the recordholder of the shares evidenced by the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify the Corporation against any claim made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 6.06 Regulations. The Board may make such other rules and regulations as it may deem expedient, not inconsistent with these Bylaws, concerning the issue, transfer and registration of certificates evidencing shares.

SECTION 6.07 Fixing Date for Determination of Shareholders of Record. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other such action. A determination of the shareholders entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VII

SEAL

SECTION 7.01 Seal. The Board may approve and adopt a corporate seal, which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the words “Corporate Seal New Jersey”.

ARTICLE VIII

FISCAL YEAR

SECTION 8.01 Fiscal Year. The fiscal year of the Corporation shall end on the thirty-first day of December of each year unless changed by resolution of the Board.

ARTICLE IX

INDEMNIFICATION AND INSURANCE

SECTION 9.01 Indemnification. Any former, present or future director, officer or employee of the Corporation or the legal representative of any such director, officer or employee shall be indemnified by the Corporation:

(a) against reasonable costs, disbursements and counsel fees paid or incurred where such person has been successful in the defense on the merits or otherwise of any pending, threatened or completed civil, criminal, administrative or arbitrative action, suit or proceeding, and any appeal therein and any inquiry or investigation which could lead to such action, suit or proceeding, or in defense of any claim, issue or matter therein, brought by reason of such person's being or having been such director, officer or employee, and

(b) with respect to the defense of any such action, suit, proceeding, inquiry or investigation for which indemnification is not made under (a) above, against reasonable costs, disbursements (which shall include amounts paid in satisfaction of settlements, judgments, fines and penalties, exclusive, however, of any amount paid or payable to the Corporation) and counsel fees if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and in connection with any criminal proceeding such person also had no reasonable cause to believe the conduct was unlawful, with the determination as to whether the applicable standard of conduct was met to be made by a majority of the members of the Board (sitting as a committee of the Board) who were not parties to such inquiry, investigation, action, suit or proceeding or by any one or more disinterested counsel to whom the question may be referred by the Board; provided, however, in connection with any proceeding by or in the right of the Corporation, no indemnification shall be provided as to any person adjudged by any court to be liable to the Corporation except as and to the extent determined by such court.

The termination of any such inquiry, investigation, action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that such person did not meet the standards of conduct set forth in subsection (b) above.

Reasonable costs, disbursements and counsel fees incurred by such person in connection with any inquiry, investigation, action, suit or proceeding may be paid by the Corporation in advance in the final disposition of such matter if authorized by a majority of the Board (sitting as a committee of the Board) not parties to such matter upon receipt by the Corporation of an undertaking by or on behalf of such person to repay such amount unless it is ultimately determined that such person is entitled to be indemnified as set forth herein.

SECTION 9.02 Directors, Trustees, Officers and Employees of Other Companies. The Board may, at any regular or special meeting of the Board, by resolution, accord similar indemnification (prospective or retroactive) to any director, trustee, officer or employee of any other company who is serving as such at the request of the Corporation and any officer, director or employee of any constituent corporation absorbed by the Corporation in a consolidation or merger, or the legal representative of any such director, trustee, officer or employee.

SECTION 9.03 Indemnification Not Exclusive. The indemnification and advancement of expenses provided for in this Article IX shall not exclude any other rights to which any person contemplated by this Article IX may be entitled as a matter of law or which may be lawfully granted; provided that no indemnification shall be made to or on behalf of such person if a judgment or other final adjudication adverse to such person establishes that his or her acts or omissions (a) were in breach of his or her duty of loyalty to the Corporation or its shareholders, (b) were not in good faith or involved a knowing violation of law or (c) resulted in receipt by such person of an improper personal benefit.

SECTION 9.04 Insurance. The Corporation may purchase and maintain insurance to protect itself and any person contemplated by this Article IX against any expenses incurred in any proceeding and any liabilities asserted against him or her by reason of his or her being or having been a director, officer or employee, whether or not the Corporation would have the power to indemnify him or her against such expenses and liabilities under the provisions of this Article IX. The Corporation may purchase such insurance from, or such insurance may be reinsured in whole or in part by, an insurer owned by or otherwise affiliated with the Corporation, whether or not such insurer does business with other insureds.

ARTICLE X

AMENDMENTS

SECTION 10.01 General Procedure. The Board of Directors shall have power to make, alter and repeal Bylaws of the Corporation by a vote of a majority of all of the directors at any regular or special meeting of the Board, provided that, unless every director shall be present at such meeting, the notice or waiver of notice of such meeting shall have specified or summarized the proposed action. The shareholders may make, alter, and repeal Bylaws of the Corporation by a vote of a majority of the shareholders at any meeting, provided that the notice or waiver of notice of such meeting shall have specified or summarized the proposed action.

ARTICLE XI

FORUM SELECTION

SECTION 11.01 Forum Selection. Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action by one or more shareholders asserting a claim of a breach of fiduciary duty owed by a director or officer or former director or officer, to the Corporation or the Corporation's shareholders or a breach of the certificate of incorporation or bylaws, (iii) any action brought by one or more shareholders asserting a claim against the Corporation or its directors or officers, or former directors or officers, arising under the certificate of incorporation or these bylaws (as either may be amended from time to time) or under the NJBCA; (iv) any other State law claim, including a class action asserting a breach of a duty to disclose or a similar claim brought by one or more shareholders against the corporation, its directors or officers, or its former directors or officers; or (vi) any other claim brought by one or more shareholders which is governed by the internal affairs doctrine or an analogous doctrine, shall be the United States District Court for the District of New Jersey, or in the event that such court lacks jurisdiction to hear such action, a Superior Court of the State of New Jersey.

In the event that any action the subject matter of which is within the scope of the preceding sentence is filed in a court other than a court located within the State of New Jersey (a "Foreign Action") in the name of any shareholder or shareholders, such shareholder or shareholders shall be deemed to have consented to (i) the personal jurisdiction of the State and Federal courts located within the State of New Jersey in connection with any action brought in any such court to enforce the preceding sentence and (ii) having service of process made upon such shareholder or shareholders in any such action by service upon such shareholder's or shareholders' counsel in the Foreign Action as agent for such shareholder.

Any shareholder or shareholders who file an action in breach of the requirement contained in this ARTICLE XI shall be liable for all reasonable costs incurred in enforcing the requirement, including, without limitation, reasonable attorneys' fees of the defendants.

EXHIBIT 31.1

CERTIFICATION

I, Scott Shaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln Educational Services Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2020

/s/ Scott Shaw

Scott Shaw
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Brian Meyers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln Educational Services Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2020

/s/ Brian Meyers

Brian Meyers
Chief Financial Officer

EXHIBIT 32

CERTIFICATION

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

Each of the undersigned, Scott Shaw, Chief Executive Officer of Lincoln Educational Services Corporation (the “Company”), and Brian Meyers, Chief Financial Officer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020 (the “Report”).

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

/s/ Scott Shaw
Scott Shaw
Chief Executive Officer

/s/ Brian Meyers
Brian Meyers
Chief Financial Officer