

LINCOLN EDUCATIONAL SERVICES CORP  
Form 10-K/A  
April 24, 2019

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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Form 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2018

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Commission File Number 000-51371

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LINCOLN EDUCATIONAL SERVICES CORPORATION  
(Exact name of registrant as specified in its charter)

New Jersey 57-1150621  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

200 Executive Drive, Suite 340  
West Orange, NJ 07052  
(Address of principal executive offices)

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

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
Common Stock, no par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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 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 Act). Yes No

The aggregate market value of the 23,159,747 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$40,297,960. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$1.74 per share on that date. Shares of common stock held by executive officers and directors and persons who own 5% or more of the outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not a determination for any other purpose.

The number of shares of the registrant's common stock outstanding as of March 8, 2019 was 25,113,569.

Documents Incorporated by Reference

Certain information required in Part III of this Annual Report on Form 10-K will be included in a definitive proxy statement for the registrant's annual meeting of shareholders or an amendment to this Annual Report on Form 10-K, in either case filed with the Commission within 120 days after December 31, 2018, and is incorporated by reference herein.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) amends the Annual Report of Lincoln Educational Services Corporation (the “Company”) on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on March 13, 2019 (the “Original Filing”).

This Amendment No. 1 is being filed to include the auditor tenure statement in Deloitte & Touche LLP's audit report contained in Part II, Item 8 which was omitted in the Original Filing due to an administrative filing error in the Edgarizing process. New currently dated certifications from the Company's principal executive officer and principal financial officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached hereto as Exhibits 31.1, 31.2 and 32.

Except as described above, this Amendment No.1 does not amend or update any other information contained in the Original Filing. The Company has included a complete copy of the Original Filing, as amended per above, in this filing.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will or will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operating results and future economic performance; and statements of management’s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as “may,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements.

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

- our failure to comply with the extensive existing regulatory framework applicable to our industry or our failure to obtain timely regulatory approvals in connection with a change of control of our company or acquisitions;
- the promulgation of new regulations in our industry as to which we may find compliance challenging;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- our ability to implement our strategic plan;
- risks associated with changes in applicable federal laws and regulations including pending rulemaking by the U.S. Department of Education;
- uncertainties regarding our ability to comply with federal laws and regulations regarding the 90/10 rule and cohort default rates;
- risks associated with maintaining accreditation
- risks associated with opening new campuses and closing existing campuses;
- risks associated with integration of acquired schools;
- industry competition;
- conditions and trends in our industry;
- general economic conditions; and
- other factors discussed under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements speak only as of the date the statements are made. Except as required under the federal securities laws and rules and regulations of the United States Securities and Exchange Commission (the “SEC”), we undertake no obligation to update or revise forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. We caution you not to unduly rely on the forward-looking statements when evaluating the information presented herein.

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PART I.

ITEM 1. BUSINESS

Overview

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 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 (which consists of information technology programs). 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 managed 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 was incorporated in New Jersey in 2003 but a predecessor entity had opened its first campus in Newark, New Jersey in 1946.

Our 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 businesses that have been or are currently being taught out. As of December 31, 2018, we had 10,525 students enrolled at 22 campuses. Our average enrollment for the year ended December 31, 2018 was 10,591 students which represented a decrease of 1.7% from average enrollment in 2017. For the year ended December 31, 2018, our revenues were \$263.2 million, which represented an increase of 0.5 % from the prior year. For more information relating to our revenues, profits and financial condition, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this Annual Report on Form 10-K.

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

Available Information

Our website is [www.lincolnedu.com](http://www.lincolnedu.com). We make available on this website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, annual proxy statements on Schedule 14A and amendments to those reports and statements as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission (the “SEC”). You can access this information on our website, free of charge, by clicking on “Investor Relations.” The information contained on or connected to our website is not a part of this

Annual Report on Form 10-K. We will provide paper copies of such filings free of charge upon request. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding us, which is available at [www.sec.gov](http://www.sec.gov).

Business Strategy

Our goal is to strengthen our position as a leading provider of career oriented post-secondary education by continuing to pursue the following strategy:

Expand Existing Areas of Study and Existing Facilities. We believe we can leverage our operations to expand our program offerings in existing areas of study and expand into new high-demand areas of study in the Transportation and Skilled Trades segment to capitalize on demand from students and employers in our target markets. Whenever possible, we seek to replicate programs across our campuses.

Maximize Utilization of Existing Facilities. We are focused on improving capacity utilization of existing facilities through increased enrollments, the introduction of new programs and partnerships with industry.

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Expand Market. We believe that we can enter new markets and broaden the Lincoln brand by partnering with nationally recognized brands to provide the skills needed to train our nation’s workforce. We continue to expand our industry relationships both to attract new students and to offer our graduates more employment opportunities. We continue to establish partnerships with companies like BMW, Chrysler (FCA), Hussmann, Volkswagen and Audi that will enable graduates to receive higher wages. We expect to continue investing in marketing, recruiting and retention resources to increase enrollment.

Programs and Areas of Study

We structure our program offerings to provide our students with a practical, career-oriented education and position them for attractive entry-level job opportunities in their chosen fields. Our diploma/certificate programs typically take between 19 to 136 weeks to complete, with tuition ranging from \$7,000 to \$41,000. Our associate’s degree programs typically take between 64 to 98 weeks to complete, with tuition ranging from \$26,000 to \$37,000. As of December 31, 2018, all of our schools offer diploma and certificate programs and nine of our schools are currently approved to offer associate’s degree programs. In order to accommodate the schedules of our students and maximize classroom utilization at some of our campuses, we typically offer courses four to five days a week in three shifts per day and start new classes every month. We update and expand our programs frequently to reflect the latest technological advances in the field, providing our students with the specific skills and knowledge required in the current marketplace. Classroom instruction combines lectures and demonstrations by our experienced faculty with comprehensive hands-on laboratory exercises in simulated workplace environments.

The following table lists the programs offered as of December 31, 2018:

Current Programs Offered

Area of Study	Associate's Degree	Diploma and Certificate
Automotive	Automotive Service Management, Collision Repair & Refinishing Service Management, Diesel & Truck Service Management	Automotive Mechanics, Automotive Technology, Automotive Technology with Audi, Automotive Technology with BMW FastTrack, Automotive Technology with Mopar X-Press, Automotive Technology with High Performance, Automotive Technology with Volkswagon, Collision Repair and Refinishing Technology, Diesel & Truck Mechanics, Diesel & Truck Technology, Diesel & Truck Technology with Alternate Fuel Teechnology, Diesel & Truck Technology with Transport Refrigeration, Diesel & Truck with Automotive Technology, Heavy Equipment Maintenance Technology, Heavy Equipment and Truck Technology
Skilled Trades	Electronic Engineering Technology, HVAC, Electronics Systems Service Management	Electrical Technology, Electrical & Electronics Systems Technician, HVAC, Welding Technology, Welding with Introduction to Pipefitting, CNC
Health Sciences	Medical Assisting Technology, Medical Office Management	Medical Office Assistant, Medical Assistant, Patient Care Technician, Medical Coding & Billing, Dental Assistant, Licensed Practical Nursing
Hospitality Services		Culinary Arts, Cosmetology, Aesthetics, International Baking and Pastry, Nail Technolgy, Therapeutic Massage & Bodywork Technician  Computer & Network Support Technician



Information Computer Networking  
Technology and Support

Automotive Technology. Automotive technology is our largest area of study, with 40% of our total average student enrollment for the year ended December 31, 2018. Our automotive technology programs are 28 to 136 weeks in length, with tuition rates of \$14,000 to \$41,000. We believe we are a leading provider of automotive technology education in each of our local markets. Graduates of our programs are qualified to obtain entry level employment ranging from positions as technicians and mechanics to various apprentice level positions. Our graduates are employed by a wide variety of companies, ranging from automotive and diesel dealers, to independent auto body paint and repair shops to trucking and construction companies.

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As of December 31, 2018, 12 campuses offered programs in automotive technology and most of these campuses offer other technical programs. Our campuses in East Windsor, Connecticut; Nashville, Tennessee; Grand Prairie, Texas; Indianapolis, Indiana; and Denver, Colorado are destination campuses, attracting students throughout the United States and, in some cases, from abroad.

**Skilled Trades.** For the year ended December 31, 2018, skilled trades was our second largest area of study, representing 27% of our total average student enrollment. Our skilled trades programs are 28 to 98 weeks in length, with tuition rates of \$16,000 to \$34,000. Our skilled trades programs include electrical, heating and air conditioning repair, welding, computerized numerical control and electronic & electronic systems technology. Graduates of our programs are qualified to obtain entry level employment positions such as electrician, cable installer, welder, wiring and heating, ventilating and air conditioning, or HVAC installer. Our graduates are employed by a wide variety of employers, including residential and commercial construction, telecommunications installation companies and architectural firms. As of December 31, 2018, we offered skilled trades programs at 14 campuses.

**Health Sciences.** For the year ended December 31, 2018, 26% of our total average student enrollment was in our health science program. Our health science programs are 35 to 104 weeks in length, with tuition rates of \$13,000 to \$30,000. Graduates of our programs are qualified to obtain positions such as licensed practical nurse, registered nurse, dental assistant, medical assistant, medical administrative assistant, and claims examiner. Our graduates are employed by a wide variety of employers, including hospitals, laboratories, insurance companies, and doctors' offices. Our practical nursing and medical assistant programs are our largest health science programs. As of December 31, 2018, we offered health science programs at 10 of our campuses.

**Hospitality Services.** For the year ended December 31, 2018, 5% of our total average student enrollment was in our hospitality services programs. Our hospitality services programs are 19 to 88 weeks in length, with tuition rates of \$7,000 to \$21,000. Our hospitality programs include culinary, therapeutic massage, cosmetology and aesthetics. Graduates work in salons, spas, cruise ships or are self-employed. We offer massage programs at one campus and cosmetology programs at one campus. Our culinary graduates are employed by restaurants, hotels, cruise ships and bakeries. As of December 31, 2018, we offered culinary programs at two campuses.

**Information Technology.** For the year ended December 31, 2018, 2% of our total average student enrollment was in our information technology programs. Our information technology programs are 40 to 80 weeks in length, with tuition rates of \$20,000 to \$33,000. We have focused our current information technology, or IT, program offerings on those that are most in demand, such as our computer and network support technician. Our graduates obtain entry level positions with both small and large corporations. As of December 31, 2018, we offered these programs at four of our campuses.

## Recent Developments

On July 9, 2018, New England Institute of Technology at Palm Beach, Inc. ("NEIT"), a wholly-owned subsidiary of the Company, entered into a commercial contract (the "Sale Agreement") with Elite Property Enterprise, LLC, pursuant to which NEIT agreed to sell to Elite Property Enterprise, LLC the real property owned by NEIT located at 1126 53rd Court North, Mangonia Park, Palm Beach County, Florida and the improvements and certain personal property located thereon (the "Mangonia Park Property"), for a cash purchase price of \$2,550,000. On August 23, 2018, NEIT consummated the sale of the Mangonia Park Property. At closing, NEIT paid a real estate brokerage fee equal to 5% of the gross sales price and other customary closing costs and expenses. Pursuant to the provisions of the Company's credit facility with its lender, Sterling National Bank, the net cash proceeds of the sale of the Mangonia Park Property were deposited into an account with the lender to serve as additional security for loans and other financial accommodations provided to the Company and its subsidiaries under the credit facility. In December 2018, the funds were used to repay the outstanding principal balance of the loans outstanding under the credit facility and such repayment permanently reduced the revolving loan availability under the credit facility.

Effective December 31, 2018, the Company completed the teach-out and ceased operation of its Lincoln College of New England (“LCNE”) campus at Southington, Connecticut. The decision to close the LCNE campus followed the previously reported placement of LCNE on probation by the college’s institutional accreditor, the New England Association of Schools and Colleges (“NEASC”). After evaluating alternative options, the Company concluded that teaching out and closing the campus was in the best interest of the Company and its students. Subsequent to formalizing the LCNE closure decision in August 2018, the Company partnered with Goodwin College, another NEASC- accredited institution in the region, to assist LCNE students to complete their programs of study. The majority of the LCNE students will continue their education at Goodwin College thereby limiting some of the Company’s closing costs. The revenue, net loss and ending population of LCNE, as of December 31, 2017, were \$8.4 million, \$1.6 million and 397 students, respectively. The Company recorded net costs associated with the closure of the LCNE campus in 2018 of approximately \$4.3 million, including (i) \$1.6 million in connection with the termination of the LCNE campus lease, which is the net present value of the remaining obligation, to be paid in equal monthly installments through January 2020, (ii) approximately \$700,000 of severance payments and (iii) \$2.0 million of additional operating losses related to no longer enrolling additional students during 2018. LCNE results, previously reported in the HOPS segment, are now included in the Transitional segment as of December 31, 2018.

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Marketing and Student Recruitment

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

**Marketing and Advertising.** We utilize a fully integrated marketing approach in our lead generation and admissions process that includes the use of traditional media such as television, radio, billboards, direct mail, a variety of print media and event marketing campaigns. Our digital marketing efforts, which include paid search, search engine optimization, online video and display advertising and social media, have grown significantly in recent years and currently drive the majority of our new student leads and enrollments. Our website's integrated marketing campaigns direct prospective students to call us or visit the Lincoln website where they will find details regarding our programs and campuses and can request additional information regarding the programs that interest them. Our internal systems enable us to closely monitor and track the effectiveness of each marketing execution on a daily or weekly basis and make adjustments accordingly to enhance efficiency and limit our student acquisition costs.

In 2018, we rolled out a new advertising campaign that included the production of creative video that aired on traditional television stations as well as through digital and social media channels. Our new campaign theme "Put Your Potential to Work" was also incorporated into various other communications channels, including billboards, radio and print. In addition, new marketing material was developed to support key program areas for us, which include automotive, skilled trades, healthcare, cosmetology and culinary. Marketing continued to support the efforts of our Admissions teams by developing standardized information packages that provide prospective students consistent messaging and branding throughout all of our campuses.

**Referrals.** Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented 16% of our new enrollments. Our school administrators actively work with our current students to encourage them to recommend our programs to prospective students. We endeavor to build and retain strong relationships with high school guidance counselors and instructors by offering annual seminars at our training facilities to further familiarize these individuals on the strengths of our programs.

**Recruiting.** Our recruiting efforts are conducted by a group of approximately 250 campus-based and field representatives who meet directly with prospective students during presentations conducted at high schools, in the prospective students' homes or during a visit to one of our campuses.

During 2018, we recruited approximately 23% of our students directly out of high school. Field sales continues to be a large part of our business and developing local community relationships is one of our most important functions. In 2018, we added one field representative to our team who is focused on recruitment of prospectus students from the military in an effort to aid veterans transitioning to the civilian work force when their service commitment is completed.

Student Admissions, Enrollment and Retention

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

**Enrollment.** We enroll students continuously throughout the year, with our largest classes enrolling in late summer or early fall following high school graduation. We had 10,525 students enrolled as of December 31, 2018 and our average enrollment for the year ended December 31, 2018 was 10,591 students, a decrease of 1.7% in average

enrollment from December 31, 2017. We had 10,159 students enrolled as of December 31, 2017 and our average enrollment for that year was 10,772 students, a decrease of 9.2% in average enrollment from December 31, 2016.

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

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### Job Placement

We believe that assisting our graduates in securing employment after completing their program of study is critical to our ability to attract high quality students and enhancing our reputation in the industry. In addition, we believe that high job placement rates result in low student loan default rates, an important requirement for continued participation in Title IV of the Higher Education Act of 1965, as amended (“Title IV Programs”). See “Regulatory Environment—Regulation of Federal Student Financial Aid Programs.” Accordingly, we dedicate significant resources to maintaining an effective graduate placement program. Our non-destination schools work closely with local employers to ensure that we are training students with skills that employers need. Each school has an advisory council comprised of local employers who provide us with direct feedback on how well we are preparing our students to succeed in the workplace. This enables us to tailor our programs to the marketplace. The placement staff in each of our destination schools maintains databases of potential employers throughout the country, allowing us to more effectively assist our graduates in securing employment in their career field upon graduation. Throughout the year, we hold numerous job fairs at our facilities where we provide the opportunity for our students to meet and interact with potential employers. In addition, many of our schools have internship programs that provide our students with opportunities to work with employers prior to graduation. For example, some of the students in our automotive programs have the opportunity to complete a portion of their hands-on training in an actual work environment. In addition, some of our students in health sciences programs are required to participate in an externship program during which they work in the field as part of their career training. We also assist students with resume writing, interviewing and other job search skills.

### Faculty and Employees

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

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

As of December 31, 2018, we had approximately 1,884 employees, including 468 full-time faculty and 364 part-time instructors. At six of our campuses, the teaching professionals are represented by unions. These employees are covered by collective bargaining agreements that expire between 2019 and 2022. We believe that we have good relationships with these unions and with our employees.

### Competition

The for-profit, post-secondary education industry is highly competitive and highly fragmented with no one provider controlling significant market share. Direct competition between career-oriented schools like ours and traditional four-year colleges or universities is limited. Thus, our main competitors are other for-profit, career-oriented schools, not-for-profit public, private schools, public and private two-year junior and community colleges, most of which are eligible to receive funding under the federal programs of student financial aid authorized by Title IV Programs. Competition is generally based on location, the type of programs offered, the quality of instruction, placement rates, reputation, recruiting and tuition rates. Public institutions are generally able to charge lower tuition than our school, due in part to government subsidies and other financial sources not available to for-profit schools. In addition, some of our other competitors have a more extensive network of schools and campuses than we do, which enables them to

recruit students more efficiently from a wider geographic area. Nevertheless, we believe that we are able to compete effectively in our local markets because of the diversity of our program offerings, quality of instruction, the strength of our brands, our reputation and our graduates' success in securing employment after completing their program of study.

Our competition differs in each market depending on the curriculum that we offer. For example, a school offering automotive, healthcare and skilled trades programs will have a different group of competitors than a school offering healthcare, business/IT and skilled trades programs. Also, because schools can add new programs within six to twelve months, competition can emerge relatively quickly. Moreover, with the introduction of online education, the number of competitors in each market has increased because students can now attend classes from an online institution. On average, each of our schools has at least three direct competitors and at least a dozen indirect competitors.

#### Environmental Matters

We use hazardous materials at our training facilities and campuses, and generate small quantities of waste such as used oil, antifreeze, paint and car batteries. As a result, our facilities and operations are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. We are also required to obtain permits for our air emissions and to meet operational and maintenance requirements. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties. Climate change has not had and is not expected to have a significant impact on our operations.

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Regulatory Environment

Students attending our schools finance their education through a combination of personal resources, family contributions, private loans and federal financial aid programs. Each of our schools participates in the Title IV Programs, which are administered by the DOE. For the year ended December 31, 2018, approximately 78% (calculated based on cash receipts) of our revenues were derived from the Title IV Programs. Students obtain access to federal student financial aid through a DOE prescribed application and eligibility certification process.

In connection with the students' receipt of federal financial aid under the Title IV Programs, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Higher Education Act of 1965, as amended, and the regulations issued by the DOE subject us to significant regulatory scrutiny in the form of numerous standards that each of our schools must satisfy in order to participate in the Title IV Programs. To participate in the Title IV Programs, a school must be authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. The DOE defines an eligible institution to consist of both a main campus and its additional locations, if any. Each of our schools is either a main campus or an additional location of a main campus. Each of our schools is subject to extensive regulatory requirements imposed by state education agencies, accrediting commissions, and the DOE. Because the DOE periodically revises its regulations and changes its interpretations of existing laws and regulations, we cannot predict with certainty how Title IV Program requirements will be applied in all circumstances. Our schools also participate in other federal and state financial aid programs that assist students in paying the cost of their education and that impose standards that we must satisfy.

State Authorization

Each of our schools must be authorized by the applicable education agencies in the states in which the school is physically located, and in some cases other states, in order to operate and to grant degrees, diplomas or certificates to its students. State agency authorization is also required in each state in which a school is physically located in order for the school to become and remain eligible to participate in Title IV Programs. If we are found not to be in compliance with the applicable state regulation and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit or enroll students in that state and may have to stop providing services in that state, which could have a significant impact on our business and results of operations. Currently, each of our schools is authorized by the applicable state education agencies in the states in which the school is physically located and in which it recruits students.

Our schools are subject to extensive, ongoing regulation by each of these states. State laws typically establish standards for instruction, curriculum, qualifications of faculty, location and nature of facilities and equipment, administrative procedures, marketing, recruiting, financial operations, student outcomes and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees, diplomas or certificates. For example, the governor of New York has proposed increased oversight of for-profit schools operating in New York, which would include our Queens campus, including, but not limited to, proposed regulations that, among other things, would limit the percentage of funding from taxpayers to 80 percent (which would be a stricter standard than required by the DOE) and require a school to spend at least 50 percent of its budget on instruction and learning. The implementation of these regulations could have a significant impact on our operations in New York and on the Company. In addition, legislation has been proposed in Maryland that would apply to certain for-profit schools operating in Maryland, which would include our Columbia campus, and that, among other things, would limit the percentage of revenue that an institution could receive from federal or state funds, or from loans or grants provided or guaranteed by the institution, in at least two of the institution's three most recent fiscal years and would require the institution to provide an extensive list of disclosures to prospective students prior to enrollment, registration or payment. The implementation of this law or any related regulations could have a significant impact on our operations



in Maryland and on the Company. We cannot predict the timing or ultimate scope of any final laws and regulations that New York, Maryland, or other states might issue on these or other topics in the future. Some states prescribe standards of financial responsibility that are different from, and in certain cases more stringent than, those prescribed by the DOE. Some states require schools to post a surety bond. We have posted surety bonds on behalf of our schools and education representatives with multiple states in a total amount of approximately \$12.7 million.

The DOE published regulations that took effect on July 1, 2011, that expanded the requirements for an institution to be considered legally authorized in the state in which it is physically located for Title IV purposes. In some cases, the regulations required states to revise their current requirements and/or to license schools in order for institutions to be deemed legally authorized in those states and, in turn, to participate in Title IV Programs. If the states do not amend their requirements where necessary and if schools do not receive approvals where necessary that comply with these new requirements, then the institution could be deemed to lack the state authorization necessary to participate in Title IV Programs. The DOE stated when it published the final regulations that it will not publish a list of states that meet, or fail to meet, the requirements, and it is uncertain how the DOE will interpret these requirements in each state.

If any of our schools fail to comply with state licensing requirements, they are subject to the loss of state licensure or authorization. If any one of our schools lost its authorization from the education agency of the state in which the school is located, or failed to comply with the DOE's state authorization requirements, that school would lose its eligibility to participate in Title IV Programs, the Title IV eligibility of its related additional locations could be affected, the impacted schools would be unable to offer its programs, and we could be forced to close the schools. If one of our schools lost its state authorization from a state other than the state in which the school is located, the school would not be able to recruit students or to operate in that state.

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Due to state budget constraints in certain states in which we operate, it is possible that those states may continue to reduce the number of employees in, or curtail the operations of, the state education agencies that oversee our schools. A delay or refusal by any state education agency in approving any changes in our operations that require state approval could prevent us from making such changes or could delay our ability to make such changes. States periodically change their laws and regulations applicable to our schools and such changes could require us to change our practices and could have a significant impact on our business and results of operations.

## Accreditation

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

Accreditation by an accrediting commission recognized by the DOE is required for an institution to be certified to participate in Title IV Programs. In order to be recognized by the DOE, accrediting commissions must adopt specific standards for their review of educational institutions. As of December 31, 2018, 22 of our campuses are accredited by the Accrediting Commission of Career Schools and Colleges, or ACCSC. The following is a list of the dates on which each campus was accredited by its accrediting commission, the date by which its accreditation must be renewed and the type of accreditation.

## Accrediting Commission of Career Schools and Colleges Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
Philadelphia, PA <sup>2</sup>	November 26, 2018	May 1, 2023	National
Union, NJ <sup>1</sup>	May 29, 2014	February 1, 2019 <sup>4</sup>	National
Mahwah, NJ <sup>1</sup>	March 11, 2015	August 1, 2019	National
Melrose Park, IL <sup>2</sup>	March 13, 2015	November 1, 2019	National
Denver, CO <sup>1</sup>	June 14, 2016	February 1, 2021	National
Columbia, MD	March 8, 2017	February 1, 2022	National
Grand Prairie, TX <sup>1</sup>	June 20, 2017	August 1, 2021	National
Allentown, PA <sup>2</sup>	March 8, 2017	February 1, 2022	National
Nashville, TN <sup>1</sup>	September 6, 2017	May 1, 2022	National
Indianapolis, IN	May 15, 2018	November 1, 2021	National
New Britain, CT	June 5, 2018	January 1, 2023	National
Shelton, CT <sup>2</sup>	March 5, 2014	September 1, 2018 <sup>4</sup>	National
Queens, NY <sup>1</sup>	September 4, 2018	June 1, 2023	National
East Windsor, CT <sup>2</sup>	October 17, 2017	February 1, 2023	National
South Plainfield, NJ <sup>1</sup>	September 2, 2014	August 1, 2019	National
Iselin, NJ	May 15, 2018	May 15, 2023	National
Moorestown, NJ <sup>3</sup>	May 15, 2018	May 15, 2023	National
Paramus, NJ <sup>3</sup>	May 15, 2018	May 15, 2023	National
Lincoln, RI <sup>3</sup>	May 15, 2018	May 15, 2023	National
Somerville, MA <sup>3</sup>	May 15, 2018	May 15, 2023	National
Summerlin, NV <sup>3</sup>	May 15, 2018	May 15, 2023	National
Marietta, GA <sup>3</sup>	May 15, 2018	May 15, 2022	National

<sup>1</sup> Branch campus of main campus in Indianapolis, IN

2 Branch campus of main campus in New Britain, CT

3 Branch campus of main campus in Iselin, NJ

4 Campus undergoing re-accreditation. Campus has received written confirmation that it remains accredited pending consideration of its application for reaccreditation.

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The Company received a letter dated January 31, 2019 from ACCSC, which indicated that the ACCSC commission voted to continue our schools on financial reporting with a subsequent review scheduled for ACCSC's August 2019 meeting. The commission continued the financial reporting status based on the net working capital deficit, accumulated deficit, and net loss reported in the nine-month financial statements submitted to ACCSC. The commission recognized the Company's continued efforts to improve its financial position through, among other things, closing underperforming schools and growing student enrollments, and determined that, while improvements are being realized, additional monitoring of the Company's financial position is warranted. The letter requires us to submit certain financial information to ACCSC by July 12, 2019 for consideration at ACCSC's August 2019 meeting.

If one of our schools fails to comply with accrediting commission requirements, the institution and its main and/or branch campuses are subject to the loss of accreditation or may be placed on probation or a special monitoring or reporting status which, if the noncompliance with accrediting commission requirements is not resolved, could result in loss of accreditation or restrictions on the addition of new locations, new programs, or other substantive changes. If any one of our schools loses its accreditation, students attending that school would no longer be eligible to receive Title IV Program funding, and we could be forced to close that school.

Programmatic accreditation is the process through which specific programs are reviewed and approved by industry and program-specific accrediting entities. Although programmatic accreditation is not generally necessary for Title IV eligibility, such accreditation may be required to allow students to sit for certain licensure exams or to work in a particular profession or career or to meet other requirements. Failure to obtain or maintain such programmatic accreditation may lead to a decline in enrollments in such programs. Under the current gainful employment regulations issued by the DOE, institutions may be required to certify that they have programmatic accreditation under certain circumstances. See "—Regulatory Environment – Gainful Employment."

## Nature of Federal and State Support for Post-Secondary Education

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

## Other Financial Assistance Programs

Some of our students receive financial aid from federal sources other than Title IV Programs, such as programs administered by the U.S. Department of Veterans Affairs and under the Workforce Investment Act. In addition, some states also provide financial aid to our students in the form of grants, loans or scholarships. The eligibility requirements for state financial aid and these other federal aid programs vary among the funding agencies and by program. States that provide financial aid to our students are facing significant budgetary constraints. Some of these states have reduced the level of state financial aid available to our students. Due to state budgetary shortfalls and constraints in certain states in which we operate, we believe that the overall level of state financial aid for our students is likely to continue to decrease in the near term, but we cannot predict how significant any such reductions will be or how long they will last. Federal budgetary shortfalls and constraints, or decisions by federal lawmakers to limit or prohibit access by our institutions or their students to federal financial aid, could result in a decrease in the level of federal financial aid for our students.

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

We also extend credit for tuition and fees to many of our students that attend our campuses.

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Regulation of Federal Student Financial Aid Programs

To participate in Title IV Programs, an institution must be authorized to offer its programs by the relevant state education agencies in the state in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as eligible by the DOE. The DOE will certify an institution to participate in Title IV Programs only after reviewing and approving an institution's application to participate in the Title IV Programs. The DOE defines an institution to consist of both a main campus and its additional locations, if any. Under this definition, for DOE purposes, we had the following four institutions as of December 31, 2018, collectively consisting of four main campuses and 18 additional locations:

Main Institution/Campus(es)	Additional Location(s)
Iselin, NJ	Moorestown, NJ Paramus, NJ Somerville, MA Lincoln, RI Marietta, GA Las Vegas, NV (Summerlin)
New Britain, CT	Shelton, CT Philadelphia, PA East Windsor, CT Melrose Park, IL Allentown, PA
Indianapolis, IN	Grand Prairie, TX Nashville, TN Denver, CO Union, NJ Mahwah, NJ Queens, NY South Plainfield, NJ

Columbia, MD

Each institution must periodically apply to the DOE for continued certification to participate in Title IV Programs. The institution also must apply for recertification when it undergoes a change in ownership resulting in a change of control. The institution also may come under DOE review when it undergoes a substantive change that requires the submission of an application, such as opening an additional location or raising the highest academic credential it offers. All institutions are recertified on various dates for various amounts of time. The following table sets forth the expiration dates for each of our institutions' current Title IV Program participation agreements:

Institution	Expiration Date of Current Program Participation Agreement
Columbia, MD	March 31, 2020
Iselin, NJ	September 30, 2020
Indianapolis, IN	December 31, 2018 <sup>1,2</sup>
New Britain, CT	March 31, 2020

<sup>1</sup> Provisionally certified.

2 Institution is on a month-to-month approval during the re-certification process.

The DOE typically provides provisional certification to an institution following a change in ownership resulting in a change of control and also may provisionally certify an institution for other reasons, including, but not limited to, noncompliance with certain standards of administrative capability and financial responsibility. One institution, namely Indianapolis, is provisionally certified by the DOE. This institution generates 51% of the Company's revenue. Indianapolis is provisionally certified based on the existence of pending program reviews with DOE. The Title IV Program reviews at our Union and Indianapolis schools, which was the basis for provisional certification, have been resolved and are now closed. An institution that is provisionally certified receives fewer due process rights than those received by other institutions in the event the DOE takes certain adverse actions against the institution, is required to obtain prior DOE approvals of new campuses and educational programs, and may be subject to heightened scrutiny by the DOE. However, provisional certification does not otherwise limit an institution's access to Title IV Program funds.

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

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

**Congressional Action.** Political and budgetary concerns significantly affect Title IV Programs. Congress periodically revises the Higher Education Act of 1965, as amended (“HEA”) and other laws governing Title IV Programs. Congress is currently considering reauthorization of Title IV Programs, but it is not known if or when Congress will pass final legislation that amends the Higher Education Act or other laws affecting U.S. Federal student aid.

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

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

**Gainful Employment.** In October 2014, the DOE issued final gainful employment regulations requiring each educational program offered by our institutions to achieve threshold rates in at least one of two debt measure categories related to an annual debt to annual earnings ratio and an annual debt to discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the final regulations and, in some cases, are based on data that may not be readily accessible to institutions, such as income information compiled by the Social Security Administration. The regulations outline various scenarios under which programs could lose Title IV eligibility for failure to achieve threshold rates in one or more measures over certain periods of time ranging from two to four years. The regulations also require an institution to provide warnings to students in programs which may lose Title IV eligibility at the end of an award year. The final regulations also contain other provisions that, among other things, include disclosure, reporting, new program approval, and certification requirements. The certification requirements require each institution to certify to the DOE, among other things, that each gainful employment program is programmatically accredited, if such accreditation is required by a Federal governmental entity or by governmental entity in the state in which the institution is physically located.

The final regulations had a general effective date of July 1, 2015. In January 2017, the DOE issued the first set of gainful employment rates for each of our programs for the debt measure year ended June 30, 2015. Sixty of our programs achieved passing rates, 13 of our programs had rates that are in a category called the “zone,” and five of our programs had failing rates. Our programs with rates in the zone are not subject to loss of Title IV eligibility unless they accumulate a combination of zone and failing rates for four consecutive years (or failing rates for two out of any three consecutive years). Each of our programs with failing rates will lose its Title IV eligibility if it receives a failing gainful employment rate for either of the 2016 or 2017 debt measure years. The DOE has yet to begin the process of issuing gainful employment rates for the 2016 debt measure year, although it could begin that process at any time.



While we did submit an appeal, we have not received any final decision from the DOE. However, that appeal is no longer relevant as all students in that failing program have since been taught out as December 31, 2018.

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The table below provides a summary of the percentage of total student enrollment by gainful employment program classification for each of our reporting segments based on student enrollment as of the debt measure year ended December 31, 2018.

Reporting Segment	Passing		Zone		Failing	
	Programs	%	Programs	%	Programs	%
Transportation	92.9	%	7.1	%	0.0	%
HOPS	96.1	%	3.9	%	0.0	%

The table below provides a summary of estimated yearly revenue related to the programs either in the zone or failing programs for the fiscal year ended December 31, 2018. The Company has implemented program modifications and tuition reductions or is teaching out the program or has appealed the program's gainful employment rate.

Reporting Segment	Zone	Failing
	Programs	Programs
Transportation	\$7,800,000	\$-
HOPS	\$2,400,000	\$1,000,000

The table below provides a summary of each of the zone or failing programs and the actions implemented by the Company with respect to those particular gainful employment ("GE") programs.

Reporting Segment	GE Program Code			GE Program Name	GE Classification	Actions implemented
	OPEID	CIP Code	Credential Level			
Transportation	007936	120503	Certificate	Culinary Arts/Chef Training	Zone	Teachout, Program Modification, Tuition Reduction
Transportation	007938	470603	Certificate	Autobody/Collision And Repair Technology/Technician	Zone	Program Modification, Tuition Reduction
Transportation	007936	470604	Certificate	Automobile/Automotive Mechanices Technology/Technician	Zone	Program Modification, Tuition Reduction
HOPS	012461	120401	Certificate	Cosmetology/Cosmetologist General	Zone	Program Modification
HOPS	007303	120503	Certificate	Culinary Arts/Chef Training	Fail	Appeal, Teachout, Program Modification, Tuition Reduction
HOPS	007303	120599	Certificate	Culinary Arts and Related Services, Other	Zone	Teachout
HOPS	0012461	470101	Certificate	Electrical/ Electronics Equipment Installation And Repair, General	Fail	Teachout, Program Modification
HOPS	0012461	470101	Associate Degree	Electrical/ Electronics Equipment Installation And Repair, General	Zone	Program Modification
HOPS	0012461	510713	Associate Degree	Medical Insurance Coding Specialist/Coder	Zone	Teachout
Transitional	0012461	120503	Certificate	Culinary Arts/Chef Training	Zone	Teachout
Transitional	0012461	120503	Certificate	Culinary Arts/Chef Training	Zone	Teachout
Transitional	0012461	470201	Certificate		Fail	Teachout

Transitional	0012461470604	Certificate	Heating, Air Conditioning, Ventilation And Refrigeration Maintenance Technology/Technician Automobile/Automotive Mechanics	Fail	Teachout
Transitional	0012461470604	Associate Degree	Technology/Technician Automobile/Automotive Mechanics Technology/Technician Medical	Zone	Teachout
Transitional	0012461510716	Associate Degree	Administrative/Executive Assistant And Medical Secretary	Zone	Teachout
Transitional	0012461510801	Associate Degree	Medical/Clinical Assistant	Zone	Teachout

<sup>1</sup>Gainful Employment programs are identified by the combination of: (1) the institution's Office of Postsecondary Education Identification number ("OPEID #"); (2) Program Classification of Instruction ("CIP"); and (3) Credential Level.

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

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In June 2018, the DOE announced the further extension of the compliance date for certain other gainful employment disclosure requirements until July 1, 2019. The DOE stated that institutions are still required to comply with other gainful employment disclosure requirements in the interim.

On August 18, 2017, the DOE announced new deadlines for submitting notices of intent to file alternate earnings appeals of gainful employment rates and for submitting alternate earnings appeals of those rates. The deadline to file a notice of intent to file an appeal was October 6, 2017 and the deadline to file the alternate earnings appeal was February 1, 2018. We cannot predict when the DOE will calculate and issue new draft or final gainful employment rates in the future. We also cannot predict whether the gainful employment rulemaking process or the extension of certain gainful employment deadlines may result in the DOE delaying the issuance of new draft or final gainful employment rates in the future.

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

- establishing new processes, and updating existing processes, for enabling borrowers to obtain from the DOE a discharge of some or all of their federal student loans based on circumstances such as certain acts or omissions of the institution and for the DOE to impose and collect liabilities against the institution following the loan discharges;
- establishing expanded standards of financial responsibility (see "Regulatory Environment – Financial Responsibility Standards");
- requiring institutions to make disclosures to current and prospective students regarding the existence of certain of the circumstances identified in the expanded standards of financial responsibility;
- calculating a loan repayment rate for each proprietary institution under standards established by the regulations and
- requiring institutions to provide warnings to current and prospective students if the institution has a loan repayment rate below specified thresholds;
- prohibiting certain contractual provisions imposed by or on behalf of schools on students regarding arbitration, dispute resolution, and participation in class actions; and
- expanding the existing definition of misrepresentations that could result in grounds for discharge of student loans and in liabilities and sanctions against the institution, including, without limitation, potential loss of Title IV eligibility.

On January 19, 2017, the DOE issued new regulations that update the Department's hearing procedures for actions to establish liability against an institution and to establish procedural rules governing recovery proceedings under the DOE's borrower defense to repayment regulations.

The DOE delayed the effective date of a majority of the borrower defense to repayment regulations until July 1, 2019 to ensure that there would be adequate time to conduct negotiated rulemaking and, as necessary, develop revised regulations. However, a federal court ruled that the delay in the effective date of the regulations was unlawful and, on October 16, 2018, denied a request to extend a stay preventing the regulations from taking effect. The DOE has not yet issued subsequent guidance regarding how the DOE will implement the regulations. There is ongoing litigation challenging the regulations, but we cannot provide any assurance as to whether the litigation could result in the future suspension or invalidation of some or all of those regulations.

The DOE published proposed regulations on July 31, 2018 that would modify the defense to repayment regulations, including regulations regarding, among other things, (i) acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of certain Title IV loans; (ii) permitting the use of arbitration clauses and class action waivers in enrollment agreements and (iii) triggering events that would result in recalculating a school's financial responsibility score and require the school to post a letter of credit or other surety. We are in the

process of evaluating the proposed regulations. Any regulations published in final form by November 1, 2018 typically would have taken effect on July 1, 2019. However, the DOE announced that it would not publish the regulations in final form by November 1, 2018 and has not yet issued the final regulations. If the regulations are published prior to November 1, 2019, they typically would take effect on July 1, 2020 unless the DOE is willing and able to provide for an earlier implementation date. We cannot provide any assurance as to the timing, content, and ultimate effective date of any such final regulations. We cannot predict how the DOE will interpret and enforce current borrower defense to repayment rules, or any final rules that may arise out of the DOE's ongoing rulemaking process, or how the current or future rules may impact our schools' participation in the Title IV Programs; however, the current and future rules could have a material adverse effect on our schools' business and results of operations, and the broad sweep of the rules may, in the future, require our schools to submit a letter of credit based on expanded standards of financial responsibility. See "Regulatory Environment – Financial Responsibility Standards."

The "90/10 Rule." Under the HEA, a proprietary institution that derives more than 90% of its total revenue from Title IV Programs (its "90/10 Rule percentage") for two consecutive fiscal years becomes immediately ineligible to participate in Title IV Programs and may not reapply for eligibility until the end of at least two fiscal years. An institution with revenues exceeding 90% for a single fiscal year will be placed on provisional certification and may be subject to other enforcement measures. If an institution violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

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We have calculated that, for our 2018 fiscal year, our institutions' 90/10 Rule percentages ranged from 74% to 84%. For 2017 and 2016, none of our existing institutions derived more than 90% of their revenues from Title IV Programs. Our calculations are subject to review by the DOE.

If Congress or the DOE were to amend the 90/10 Rule to treat other forms of federal financial aid as Title IV revenue for 90/10 Rule purposes, lower the 90% threshold, or otherwise change the calculation methodology (each of which has been proposed by some Congressional members in proposed legislation), or make other changes to the 90/10 Rule, those changes could make it more difficult for our institutions to comply with the 90/10 Rule. A loss of eligibility to participate in Title IV Programs for any of our institutions would have a significant impact on the rate at which our students enroll in our programs and on our business and results of operations.

**Student Loan Defaults.** The HEA limits participation in Title IV Programs by institutions whose former students defaulted on the repayment of federally guaranteed or funded student loans above a prescribed rate (the “cohort default rate”). The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The cohort default rate is calculated on a federal fiscal year basis and measures the percentage of students who enter repayment of a loan during the federal fiscal year and default on the loan on or before the end of the federal fiscal year or the subsequent two federal fiscal years.

Under the HEA, an institution whose Federal Family Education Loan, or FFEL, and Federal Direct Loan, or FDL, cohort default rate is 30% or greater for three consecutive federal fiscal years loses eligibility to participate in the FFEL, FDL, and Pell programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose FFEL and FDL cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the FFEL and FDL programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's three-year cohort default rate equals or exceeds 30% in two of the three most recent federal fiscal years for which the DOE has issued cohort default rates, the institution may be placed on provisional certification status and could be required to submit a letter of credit to the DOE.

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

In February 2019, the DOE released draft three-year cohort default rates for the 2016 federal fiscal year. The draft cohort default rates are subject to change pending receipt of the final cohort default rates, which the DOE is expected to publish in September 2019. The draft rates for our institutions for the 2016 federal fiscal year range from 8.3% to 16.6%. None of our institutions had draft cohort default rates of 30% or more.

## Financial Responsibility Standards.

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

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

- The equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;

The primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and

·The net income ratio, which measures the institution's ability to operate at a profit.

The DOE assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The DOE then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight.

If an institution's composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as "the zone." Under the DOE regulations, institutions that are in the zone typically may be permitted by the DOE to continue to participate in the Title IV Programs by choosing one of two alternatives: 1) the "Zone Alternative" under which an institution is required to make disbursements to students under the Heightened Cash Monitoring 1 ("HCM1") payment method and to notify the DOE within 10 days after the occurrence of certain oversight and financial events or 2) submit a letter of credit to the DOE equal to 50 percent of the Title IV Program funds received by the institution during its most recent fiscal year. The DOE permits an institution to participate under the "Zone Alternative" for a period of up to three consecutive fiscal years. Under the HCM1 payment method, the institution is required to make Title IV Program disbursements to eligible students and parents before it requests or receives funds for the amount of those disbursements from the DOE. As long as the student accounts are credited before the funding requests are initiated, an institution is permitted to draw down funds through the DOE's electronic system for grants management and payments for the amount of disbursements made to eligible students. Unlike the Heightened Cash Monitoring 2 ("HCM2") and reimbursement payment methods, the HCM1 payment method typically does not require schools to submit documentation to the DOE and wait for DOE approval before drawing down Title IV Program funds. Effective July 1, 2016, a school under HCM1, HCM2 or reimbursement payment methods must also pay any credit balances due to a student before drawing down funds for the amount of those disbursements from the DOE, even if the student or parent provides written authorization for the school to hold the credit balance.

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

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

The DOE has evaluated the financial responsibility of our institutions on a consolidated basis. We have submitted to the DOE our audited financial statements for the 2016 and 2015 fiscal year reflecting a composite score of 1.5 and 1.9, respectively, based upon our calculations. The DOE reviewed our 2016 composite score and concluded that we were no longer required to operate under the Zone Alternative requirements that we had operated under following the DOE's review of our 2014 composite score.

For the 2017 fiscal year, we calculated our composite score to be 1.1. This score is subject to determination by the DOE based on its review of our consolidated audited financial statements for the 2017 fiscal year, but we have not received a determination yet from the DOE. We believe it is likely that the DOE will determine that our institutions are "in the zone" and that we will be required to operate under the Zone Alternative requirements as well as any other requirements that the DOE might impose in its discretion. For the 2018 fiscal year, we have calculated our composite score to be 1.1. This score is subject to determination by the DOE once it receives and reviews our consolidated audited financial statements for the 2018 fiscal year, but we believe it is likely that the DOE will determine that our institutions are "in the zone" and that we will be required to operate under the Zone Alternative requirements as well as any other requirements that the DOE might impose in its discretion.

On November 1, 2016, the DOE published new Borrower Defense to Repayment regulations that included expanded standards of financial responsibility that could result in a requirement that we submit to the DOE a substantial letter of credit or other form of financial protection in an amount determined by the DOE, and be subject to other conditions and requirements, based on any one of an extensive list of triggering circumstances. The DOE delayed the effective date of a majority of the borrower defense to repayment regulations until July 1, 2019 to ensure that there would be adequate time to conduct negotiated rulemaking and, as necessary, develop revised regulations. However, a federal court ruled that the delay in the effective date of the regulations was unlawful and, on October 16, 2018, denied a request to extend a stay preventing the regulations from taking effect. The DOE has not yet issued subsequent guidance regarding how the DOE will implement the regulations. There is ongoing litigation challenging the regulations, but we cannot provide any assurance as to whether the litigation could result in the future suspension or invalidation of some or all of those regulations.

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

For example, one of the triggering circumstances in the regulations is if an institution's accrediting agency requires the institution to submit a teach-out plan that covers the closing of the institution or one of its locations. We notified the DOE that we intended to close our Southington campus and that our accrediting agency required a teach-out plan.



The DOE could attempt to recalculate our composite score, could seek to treat all Title IV funds received by the school in its most recently completed fiscal year at that campus as a loss in the recalculation, and could seek to impose a letter of credit based on the reduced composite score. However, it is uncertain whether the DOE would apply the regulation to the accrediting agency's request for a teach-out plan which occurred after the July 1, 2017 effective date of the regulations, but prior to the expiration of the stay of the regulation on October 16, 2018; whether the DOE's recalculation of the composite score would result in a letter of credit requirement; or whether the DOE would require a letter of credit given that the campus is currently closed.

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

**Return of Title IV Program Funds.** An institution participating in Title IV Programs must calculate the amount of unearned Title IV Program funds that have been disbursed to students who withdraw from their educational programs before completing them, and must return those unearned funds to the DOE or the applicable lending institution in a timely manner, which is generally within 45 days from the date the institution determines that the student has withdrawn.

If an institution is cited in an audit or program review for returning Title IV Program funds late for 5% or more of the students in the audit or program review sample or if the regulatory auditor identifies a material weakness in the institution's report on internal controls relating to the return of unearned Title IV Program funds, the institution may be required to post a letter of credit in favor of the DOE in an amount equal to 25% of the total amount of Title IV Program funds that should have been returned for students who withdrew in the institution's prior fiscal year.

On January 11, 2018, the DOE sent letters to our Columbia, Maryland and Iselin, New Jersey institutions requiring each institution to submit a letter of credit to the DOE based on findings of late returns of Title IV Program funds in the annual Title IV Program compliance audits submitted to the DOE for the fiscal year ended December 31, 2016. Our Iselin institution provided evidence demonstrating that only 3% of the Title IV Program funds returned were late. However, the DOE concluded that a letter of credit would nevertheless be required for each institution because the regulatory auditor included a finding that there was a material weakness in our report on internal controls relating to return of unearned Title IV Program funds. We disagree with the regulatory auditor's conclusion that a material weakness could exist if the error rate in the expanded audit sample is only 3% or approximately \$20,000 and we believe that the regulatory auditor's conclusion is erroneous. We requested that the DOE reconsider the letter of credit requirement; however, by letter dated February 7, 2018, the DOE maintained that the refund letters of credit were necessary but agreed that the amount of each letter of credit could be based on the returns that were required to be made by each institution in the 2017 fiscal year rather than in the 2016 fiscal year. Accordingly, we submitted letters of credit in the amounts of \$0.5 million and \$0.1 million to the DOE by the February 23, 2018 deadline and expect that these letters of credit will remain in place for a minimum of two years.

**Negotiated Rulemaking.** On October 15, 2018, the DOE published a notice in the Federal Register announcing its intent to establish a negotiated rulemaking committee and three subcommittees to develop proposed regulations related to several matters, including, but not limited to, requirements for accrediting agencies in their oversight of member institutions and programs; criteria used by the DOE to recognize accrediting agencies; simplification of the DOE's recognition and review of accrediting agencies; clarification of the core oversight responsibilities amongst accrediting agencies, states and the DOE to hold institutions accountable; clarification of the permissible arrangements between an institution of higher education and another organization to provide a portion of an educational program; roles and responsibilities of institutions and accrediting agencies in the teach-out process; regulatory changes required to ensure equitable treatment of brick-and-mortar and distance education programs; regulatory changes required to enable expansion of direct assessment programs, distance education, and competency-based education; regulatory changes required to clarify disclosure and other requirements of state authorization; protections to ensure that

accreditors recognize and respect institutional mission and evaluate an institution's policies and educational programs based on that mission; simplification of state authorization requirements related to distance education; defining "regular and substantive interaction" as it relates to distance education; defining the term "credit hour"; defining the requirements related to the length of educational programs and entry level requirements for the occupation; addressing regulatory barriers in the DOE's institutional eligibility and general provision regulations; addressing direct assessment programs and competency-based education; and other matters. On January 7, 2019, the DOE released a set of draft proposed regulations for consideration and negotiation by the negotiated rulemaking committee and subcommittees. The draft proposed regulations also cover additional topics including, but not limited to, amendments to current regulations regarding the clock to credit hour conversion formula; the requirements for measuring the lengths of certain educational programs; the requirements for returning unearned Title IV funds received for students who withdraw before completing their educational programs; and the requirements for measuring a student's satisfactory academic progress. The proposed changes to the regulations remain subject to further change during the negotiated rulemaking process. The committee and subcommittees are in the process of meeting during the first three months of 2019. We cannot provide any assurances as to the timing, content or impact of any final regulations arising from the negotiated rulemaking process.

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**Substantial Misrepresentation.** The DOE's regulations prohibit an institution that participates in the Title IV Programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges, graduate employability or its relationship with the DOE. A "misrepresentation" includes any false, erroneous, or misleading statement (whether made in writing, visually, orally, or through other means) that is made by an eligible institution, by one of its representatives, or by a third party that provides to the institution educational programs, marketing, advertising, recruiting, or admissions services and that is made to a student, prospective student, any member of the public, an accrediting or state agency, or to DOE. The DOE defines a "substantial misrepresentation" to include any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment. The definition of "substantial misrepresentation" is broad and, therefore, it is possible that a statement made by the institution or one of its service providers or representatives could be construed by the DOE to constitute a substantial misrepresentation. If the DOE determines that one of our institutions has engaged in substantial misrepresentation, the DOE may impose sanctions or other conditions upon the institution including, but not limited to, initiating an action to fine the institution or limit, suspend, or terminate its eligibility to participate in the Title IV Programs and may seek to discharge students' loans and impose liabilities upon the institution.

**School Acquisitions.** When a company acquires a school that is eligible to participate in Title IV Programs, that school undergoes a change of ownership resulting in a change of control as defined by the DOE. Upon such a change of control, a school's eligibility to participate in Title IV Programs is generally suspended until it has applied for recertification by the DOE as an eligible school under its new ownership, which requires that the school also re-establish its state authorization and accreditation. The DOE may temporarily and provisionally certify an institution seeking approval of a change of control under certain circumstances while the DOE reviews the institution's application. The time required for the DOE to act on such an application may vary substantially. The DOE recertification of an institution following a change of control will be on a provisional basis. Thus, any plans to expand our business through acquisition of additional schools and have them certified by the DOE to participate in Title IV Programs must take into account the approval requirements of the DOE and the relevant state education agencies and accrediting commissions.

**Change of Control.** In addition to school acquisitions, other types of transactions can also cause a change of control. The DOE, most state education agencies and our accrediting commissions have standards pertaining to the change of control of schools, but these standards are not uniform. DOE regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution's parent corporation. For a publicly traded corporation, DOE regulations provide that a change of control occurs in one of two ways: (a) if a person acquires ownership and control of the corporation so that the corporation is required to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing the change of control or (b) if the corporation has a shareholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest shareholder of the corporation, and that shareholder ceases to own at least 25% of such stock or ceases to be the largest shareholder. These standards are subject to interpretation by the DOE. A significant purchase or disposition of our common stock could be determined by the DOE to be a change of control under this standard.

Most of the states and our accrediting commissions include the sale of a controlling interest of common stock in the definition of a change of control although some agencies could determine that the sale or disposition of a smaller interest would result in a change of control. A change of control under the definition of one of these agencies would require the affected school to reaffirm its state authorization or accreditation. Some agencies would require approval prior to a sale or disposition that would result in a change of control in order to maintain authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely.

A change of control could occur as a result of future transactions in which the Company or our schools are involved. Some corporate reorganizations and some changes in the board of directors of the Company are examples of such transactions. Moreover, the potential adverse effects of a change of control could influence future decisions by us and

our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for shares of our common stock and could have an adverse effect on the market price of our shares.

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

A student may use Title IV Program funds only to pay the costs associated with enrollment in an eligible educational program offered by an institution participating in Title IV Programs. Generally, unless otherwise required by the DOE, an institution that is eligible to participate in Title IV Programs may add a new educational program without DOE approval if that new program leads to an associate's level or higher degree and the institution already offers programs at that level, or if that program prepares students for gainful employment in the same or a related occupation as an educational program that has previously been designated as an eligible program at that institution and meets minimum length requirements. Institutions that are provisionally certified may be required to obtain approval of certain educational programs. Our institution in Indianapolis is provisionally certified and required to obtain prior DOE approval of new degree, non-degree, and short-term training educational programs. Our Iselin institution also is subject to prior approval requirements for substantive changes such as new campuses and educational programs as a result of its accrediting agency's loss of DOE recognition, and the DOE has indicated that such changes only will be approved in limited circumstances. If an institution erroneously determines that an educational program is eligible for purposes of Title IV Programs, the institution would likely be liable for repayment of Title IV Program funds provided to students in that educational program. Our expansion plans are based, in part, on our ability to add new educational programs at our existing schools.

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Some of the state education agencies and our accrediting commission also have requirements that may affect our schools' ability to open a new campus, establish an additional location of an existing institution or begin offering a new educational program.

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

- Comply with all applicable federal student financial aid requirements;
  - Have capable and sufficient personnel to administer the federal student Title IV Programs;
- Administer Title IV Programs with adequate checks and balances in its system of internal controls over financial reporting;
- Divide the function of authorizing and disbursing or delivering Title IV Program funds so that no office has the responsibility for both functions;
- Establish and maintain records required under the Title IV Program regulations;
- Develop and apply an adequate system to identify and resolve discrepancies in information from sources regarding a student's application for financial aid under the Title IV Program;
- Have acceptable methods of defining and measuring the satisfactory academic progress of its students;
- Refer to the Office of the Inspector General any credible information indicating that any applicant, student, employee, third party servicer or other agent of the school has been engaged in any fraud or other illegal conduct involving Title IV Programs;
- Not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;
- Provide adequate financial aid counseling to its students;
- Submit in a timely manner all reports and financial statements required by the Title IV Program regulations; and
- Not otherwise appear to lack administrative capability.

Failure by us to satisfy any of these or other administrative capability criteria could cause our institutions to be subject to sanctions or other actions by the DOE or to lose eligibility to participate in Title IV Programs, which would have a significant impact on our business and results of operations.

**Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments.** An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The DOE's regulations established twelve "safe harbors" identifying types of compensation that could be paid without violating the incentive compensation rule. On October 29, 2010, the DOE adopted final rules that took effect on July 1, 2011 and amended the incentive compensation rule by, among other things, eliminating the twelve safe harbors (thereby reducing the scope of permissible compensatory payments under the rule) and expanding the scope of compensatory payments and employees subject to the rule. The DOE has stated that it does not intend to provide private guidance regarding particular compensation structures in the future and will enforce the regulations as written. We cannot predict how the DOE will interpret and enforce the revised incentive compensation rule. The implementation of the final regulations required us to change our compensation practices and has had and will continue to have a significant impact the productivity of our employees, on the retention of our employees and on our business and results of operations.

**Compliance with Regulatory Standards and Effect of Regulatory Violations.** Our schools are subject to audits, program reviews, site visits, and other reviews by various federal and state regulatory agencies, including, but not limited to, the DOE, the DOE's Office of Inspector General, state education agencies and other state regulators, the

U.S. Department of Veterans Affairs and other federal agencies, and by our accrediting commissions. In addition, each of our institutions must retain an independent certified public accountant to conduct an annual audit of the institution's administration of Title IV Program funds. The institution must submit the resulting audit report to the DOE for review.

If one of our schools fails to comply with accrediting or state licensing requirements, such school and its main and/or branch campuses could be subject to the loss of state licensure or accreditation, which in turn could result in a loss of eligibility to participate in Title IV Programs. If the DOE or another agency determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the HEA or DOE regulations, the institution could be required to repay such funds and related costs to the DOE and lenders, and could be assessed an administrative fine. The DOE could also place the institution on provisional certification status and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the students' eligibility for Title IV Program funds before receiving such funds from the DOE. See "Regulatory Environment – Financial Responsibility Standards."

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

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

Item 1A. RISK FACTORS

The risk factors described below and other information included elsewhere in this Form 10-K are among the numerous risks faced by our Company and should be carefully considered before deciding to invest in, sell or retain shares of our common stock. The risks and uncertainties described below are not the only ones we face.

RISKS RELATED TO OUR INDUSTRY

Our failure to comply with the extensive regulatory requirements for participation in Title IV Programs and school operations could result in financial penalties, restrictions on our operations and loss of external financial aid funding, which could affect our revenues and impose significant operating restrictions on us.

Our industry is highly regulated by federal and state governmental agencies and by accrediting commissions. In particular, the HEA and DOE regulations specify extensive criteria and numerous standards that an institution must satisfy to establish to participate in the Title IV Programs. For a description of these criteria, see "Regulatory Environment."

If we are found not to have satisfied the DOE's requirements for Title IV Programs funding, one or more of our institutions, including its additional locations, could be limited in its access to, or lose, Title IV Program funding, which could adversely affect our revenue, as we received approximately 78% of our revenue (calculated based on cash receipts) from Title IV Programs in 2018, and have a significant impact on our business and results of operations. Furthermore, if any of our schools fails to comply with applicable regulatory requirements, the school and its related main campus and/or additional locations could be subject to, among other things, the loss of state licensure or accreditation, the loss of eligibility to participate in and receive funds under the Title IV Programs, the loss of the ability to grant degrees, diplomas and certificates, provisional certification, or the imposition of liabilities or monetary penalties, any of which could adversely affect our revenues and impose significant operating restrictions upon us. In addition, the loss by any of our schools of its accreditation, its state authorization or license, or its eligibility to participate in Title IV Programs would constitute an event of default under our credit agreement with our lender, which could result in the acceleration of all amounts then outstanding with respect to our outstanding loan obligations. The various regulatory agencies applicable to our business periodically revise their requirements and modify their interpretations of existing requirements and restrictions. We cannot predict with certainty how any of these regulatory requirements will be applied or whether each of our schools will be able to comply with these requirements or any additional requirements instituted in the future.

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



DOE regulations specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV Programs. For a description of these criteria, see "Regulatory Environment – Administrative Capability."

If we are found not to have satisfied the DOE's "administrative capability" requirements, or otherwise failed to comply with one or more DOE requirements, one or more of our institutions, including its additional locations, could be limited in its access to, or lose, Title IV Program funding. A loss or decrease in Title IV funding could adversely affect our revenue, as we received approximately 78% of our revenue (calculated based on cash receipts) from Title IV Programs in 2018, which would have a significant impact on our business and results of operations.

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Congress and the DOE may make changes to the laws and regulations applicable to, or reduce funding for, Title IV Programs, which could reduce our student population, revenues or profit margin.

Congress periodically revises the HEA and other laws governing Title IV Programs and annually determines the funding level for each Title IV Program. We cannot predict what if any legislative or other actions will be taken or proposed by Congress in connection with the reauthorization of the HEA or with other activities of Congress. See “Regulatory Environment – Congressional Action.” Because a significant percentage of our revenues are derived from the Title IV programs, any action by Congress or the DOE that significantly reduces funding for Title IV Programs or that limits or restricts the ability of our schools, programs, or students to receive funding through those Programs or that imposes new restrictions or constraints upon our business or operations could reduce our student enrollment and our revenues, and could increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV program requirements. In addition, current requirements for student or school participation in Title IV Programs may change or one or more of the present Title IV Programs could be replaced by other programs with materially different student or school eligibility requirements. If we cannot comply with the provisions of the HEA, as they may be revised, or if the cost of such compliance is excessive, or if funding is materially reduced, our revenues or profit margin could be materially adversely affected.

The DOE has changed its regulations, and may make other changes in the future, in a manner which could require us to incur additional costs in connection with our administration of the Title IV Programs, affect our ability to remain eligible to participate in the Title IV Programs, impose restrictions on our participation in the Title IV Programs, affect the rate at which students enroll in our programs, or otherwise have a significant impact on our business and results of operations.

In October 2014, the DOE issued final regulations on gainful employment requiring each educational program to achieve threshold rates in two debt measure categories related to an annual debt to annual earnings ratio and an annual debt to discretionary income ratio. The regulations outline various scenarios under which programs could lose Title IV Program eligibility for failure to achieve threshold rates in one or more measures over certain periods of time ranging from two to four years. The regulations also require an institution to provide warnings to students in programs which may lose Title IV Program eligibility at the end of an award year. The final regulations also contain other provisions that, among other things, include disclosure, reporting, new program approval, and certification requirements. See “Regulatory Environment – Gainful Employment.”

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

In June 2018, the DOE announced the further extension of the compliance date for certain other gainful employment disclosure requirements until July 1, 2019. The DOE stated that institutions are still required to comply with other gainful employment disclosure requirements in the interim.

On August 18, 2017, the DOE announced in the Federal Register new deadlines for submitting notices of intent to file alternate earnings appeals of gainful employment rates and for submitting alternate earnings appeals of those rates. The deadline to file a notice of intent to file an appeal was October 6, 2017 and the deadline to file the alternate earnings appeal was February 1, 2018. We cannot predict when the DOE will calculate and issue new draft or final

gainful employment rates in the future. We also cannot predict whether the gainful employment rulemaking process or the extension of certain gainful employment deadlines may result in the DOE delaying the issuance of new draft or final gainful employment rates in the future.

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

- establishing new processes, and updating existing processes, for enabling borrowers to obtain from the DOE a discharge of some or all of their federal student loans based on circumstances such as certain acts or omissions of the institution and for the DOE to impose and collect liabilities against the institution following the loan discharges;
- establishing expanded standards of financial responsibility (see "Financial Responsibility Standards");
- requiring institutions to make disclosures to current and prospective students regarding the existence of certain of the circumstances identified in the expanded standards of financial responsibility;

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calculating a loan repayment rate for each proprietary institution under standards established by the regulations and requiring institutions to provide warnings to current and prospective students if the institution has a loan repayment rate below specified thresholds;

prohibiting certain contractual provisions imposed by or on behalf of schools on students regarding arbitration, dispute resolution, and participation in class actions; and

expanding the existing definition of misrepresentations that could result in grounds for discharge of student loans and in liabilities and sanctions against the institution, including, without limitation, potential loss of Title IV eligibility.

On January 19, 2017, the DOE issued new regulations that update the Department's hearing procedures for actions to establish liability against an institution and to establish procedural rules governing recovery proceedings under the DOE's borrower defense to repayment regulations.

The DOE had delayed the effective date of a majority of these regulations until July 1, 2019 to ensure that there is adequate time to conduct negotiated rulemaking and, as necessary, develop revised regulations. However, a federal court ruled that the delay in the effective date of the regulations was unlawful and, on October 16, 2018, denied a request to extend a stay preventing the regulations from taking effect. The DOE has not yet issued subsequent guidance regarding how the DOE will implement the regulations. There is ongoing litigation challenging the regulations, but we cannot provide any assurance as to whether the litigation could result in the future suspension or invalidation of some or all of those regulations.

The DOE published proposed regulations on July 31, 2018 that would modify the defense to repayment regulations, including regulations regarding, among other things, acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of certain Title IV loans. The proposed regulations also include regulations regarding other topics such as permitting the use of arbitration clauses and class action waivers in enrollment agreements and triggering events that would result in recalculating a school's financial responsibility score and require the school to post a letter of credit or other surety. We are in the process of evaluating the proposed regulations. Any regulations published in final form by November 1, 2018 typically would have taken effect on July 1, 2019. However, the DOE announced that it would not publish the regulations in final form by November 1, 2018 and has not yet issued the final regulations. If the regulations are published prior to November 1, 2019, they typically would take effect on July 1, 2020 unless the DOE is willing and able to provide for an earlier implementation date. We cannot provide any assurance as to the timing, content, and ultimate effective date of any such final regulations. We cannot predict how the DOE will interpret and enforce the current borrower defense to repayment rules, or any final rules that may arise out of the DOE's ongoing rulemaking process, or how the current or future rules may impact our schools' participation in the Title IV Programs; however, the current and future rules could have a material adverse effect on our schools' business and results of operations, and the broad sweep of the rules may, in the future, require our schools to submit a letter of credit based on expanded standards of financial responsibility. See "Regulatory Environment – Financial Responsibility Standards." We cannot predict how the DOE would interpret and enforce current or future borrower defense to repayment rules or how these rules, or any rules that may arise out of the negotiated rulemaking process or any other rules that DOE may promulgate on this or other topics, may impact our schools' participation in the Title IV programs; however, the new rules could have a material adverse effect on our schools' business and results of operations, and the broad sweep of the rules may, in the future, require our schools to submit a letter of credit based on expanded standards of financial responsibility.

On October 15, 2018, the DOE published a notice in the Federal Register announcing its intent to establish a negotiated rulemaking committee and three subcommittees to develop proposed regulations related to several matters. See "Regulatory Environment – Negotiated Rulemaking." On January 7, 2019, the DOE released a set of draft proposed regulations for consideration and negotiation by the negotiated rulemaking committee and subcommittees. The draft proposed regulations also cover additional topics including, but not limited to, amendments to current regulations regarding the clock to credit hour conversion formula for measuring the lengths of certain educational programs, the return of unearned Title IV funds received for students who withdraw before completing their educational programs,

and the measurement of student academic progress. The proposed changes to the regulations remain subject to further change during the negotiated rulemaking process and we continue to monitor and review those proposals as they evolve. The committee and subcommittees are scheduled to meet during the first three months of 2019. At this time, we cannot provide any assurances as to the timing, content or impact of any final regulations arising from this planned negotiated rulemaking process.

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

To participate in Title IV Programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the DOE or post a letter of credit in favor of the DOE and possibly accept other conditions on its participation in Title IV Programs. The DOE published new regulations that establish expanded standards of financial responsibility that could result in a requirement that we submit to the DOE a substantial letter of credit or other form of financial protection in an amount determined by the DOE, and be subject to other conditions and requirements, based on any one of an extensive list of triggering circumstances. See “Regulatory Environment – Financial Responsibility Standards.” Any obligation to post one or more letters of credit would increase our costs of regulatory compliance. Our inability to obtain a required letter of credit or limitations on, or termination of, our participation in Title IV Programs could limit our students' access to various government-sponsored student financial aid programs, which could significantly reduce our student population and revenues.

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We are subject to fines and other sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admissions or financial aid activities, which could increase our cost of regulatory compliance and adversely affect our results of operations.

An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in enrolling students or securing financial aid to any person involved in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. See “Regulatory Environment -- Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments.” We cannot predict how the DOE will interpret and enforce the incentive compensation rule. The implementation of these regulations has required us to change our compensation practices and has had and may continue to have a significant impact on the rate at which students enroll in our programs and on our business and results of operations. If we are found to have violated this law, we could be fined or otherwise sanctioned by the DOE or we could face litigation filed under the qui tam provisions of the Federal False Claims Act.

If our schools do not maintain their accreditation, they may not participate in Title IV Programs, which could adversely affect our student population and revenues.

An institution must be accredited by an accrediting commission recognized by the DOE in order to participate in Title IV Programs. See “Regulatory Environment – Accreditation.” If any of our schools fails to comply with accrediting commission requirements, the institution and its main and/or branch campuses are subject to the loss of accreditation or may be placed on probation or a special monitoring or reporting status which, if the noncompliance with accrediting commission requirements is not resolved, could result in loss of accreditation. Loss of accreditation by any of our main campuses would result in the termination of eligibility of that school and all of its branch campuses to participate in Title IV Programs and could cause us to close the school and its branches, which could have a significant adverse impact on our business and operations.

Programmatic accreditation is the process through which specific programs are reviewed and approved by industry- and program-specific accrediting entities. Although programmatic accreditation is not generally necessary for Title IV eligibility, such accreditation may be required to allow students to sit for certain licensure exams or to work in a particular profession or career or to meet other requirements. Failure to obtain or maintain such programmatic accreditation may lead to a decline in enrollments in such programs. Moreover, under new gainful employment regulations issued by the DOE, institutions are required to certify that they have programmatic accreditation under certain circumstances. See “Regulatory Environment – Gainful Employment.” Failure to comply with these new requirements could impact the Title IV eligibility of educational programs that are required to maintain such programmatic accreditation.

Our institutions would lose eligibility to participate in Title IV Programs if the percentage of their revenues derived from those programs exceeds 90%, which could reduce our student population and revenues.

Under the HEA reauthorization, a proprietary institution that derives more than 90% of its total revenue from Title IV Programs for two consecutive fiscal years becomes immediately ineligible to participate in Title IV Programs and may not reapply for eligibility until the end of at least two fiscal years. An institution with revenues exceeding 90% for a single fiscal year will be placed on provisional certification and may be subject to other enforcement measures. See “Regulatory Environment – 90/10 Rule.” If any of our institutions loses eligibility to participate in Title IV Programs, that loss would cause an event of default under our credit agreement, would also adversely affect our students’ access to various government-sponsored student financial aid programs, and would have a significant impact on the rate at which our students enroll in our programs and on our business and results of operations.

Our institutions would lose eligibility to participate in Title IV Programs if their former students defaulted on repayment of their federal student loans in excess of specified levels, which could reduce our student population and

revenues.

An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution's current and former students default on their federal student loans exceed specified percentages. See "Regulatory Environment – Student Loan Defaults." If former students defaulted on repayment of their federal student loans in excess of specified levels, our institutions would lose eligibility to participate in Title IV Programs, would cause an event of default under our credit agreement, would also adversely affect our students' access to various government-sponsored student financial aid programs, and would have a significant impact on the rate at which our students enroll in our programs and on our business and results of operations.

We are subject to sanctions if we fail to correctly calculate and timely return Title IV Program funds for students who withdraw before completing their educational program, which could increase our cost of regulatory compliance and decrease our profit margin.

An institution participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that have been credited to students who withdraw from their educational programs before completing them and must return those unearned funds in a timely manner, generally within 45 days of the date the institution determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of the DOE or may be otherwise sanctioned by the DOE, which could increase our cost of regulatory compliance and adversely affect our results of operations. Based upon the findings of an annual Title IV Program compliance audit of our Columbia, Maryland and Iselin, New Jersey institutions, the Company submitted letters of credit in the amounts of \$0.5 million and \$0.1 million to the DOE. We are required to maintain those letters of credit in place for a minimum of two years. See "Regulatory Environment – Return of Title IV Program Funds."

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We are subject to sanctions if we fail to comply with the DOE's regulations regarding prohibitions against substantial misrepresentations, which could increase our cost of regulatory compliance and decrease our profit margin.

The DOE's regulations prohibit an institution that participates in the Title IV Programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges, graduate employability or its relationship with the DOE. See "Regulatory Environment – Substantial Misrepresentation." If the DOE determines that one of our institutions has engaged in substantial misrepresentation, the DOE may impose sanctions or other conditions upon the institution including, but not limited to, initiating an action to fine the institution or limit, suspend, or terminate its eligibility to participate in the Title IV Programs and may seek to discharge students' loans and impose liabilities upon the institution.

Regulatory agencies or third parties may conduct compliance reviews, bring claims or initiate litigation against us. If the results of these reviews or claims are unfavorable to us, our results of operations and financial condition could be adversely affected.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of noncompliance and lawsuits by government agencies and third parties. If the results of these reviews or proceedings are unfavorable to us, or if we are unable to defend successfully against third-party lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations on the operations of our business, loss of federal and state funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a third-party lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or defend those lawsuits or claims. Certain of our institutions are subject to ongoing reviews and proceedings. See "Regulatory Environment – State Authorization," "Regulatory Environment – Accreditation," and "Regulatory Environment - Compliance with Regulatory Standards and Effect of Regulatory Violations."

A decline in the overall growth of enrollment in post-secondary institutions, or in our core disciplines, could cause us to experience lower enrollment at our schools, which could negatively impact our future growth.

Enrollment in post-secondary institutions over the next ten years is expected to be slower than in the prior ten years. In addition, the number of high school graduates eligible to enroll in post-secondary institutions is expected to fall before resuming a growth pattern for the foreseeable future. In order to increase our current growth rates in degree granting programs, we will need to attract a larger percentage of students in existing markets and expand our markets by creating new academic programs. In addition, if job growth in the fields related to our core disciplines is weaker than expected, as a result of any regional or national economic downturn or otherwise, fewer students may seek the types of diploma or degree granting programs that we offer or seek to offer. Our failure to attract new students, or the decisions by prospective students to seek diploma or degree programs in other disciplines, would have an adverse impact on our future growth.

Our business could be adversely impacted by additional legislation, regulations, or investigations regarding private student lending because students attending our schools rely on private student loans to pay tuition and other institutional charges.

The U.S. Consumer Financial Protection Bureau ("CFPB"), under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has exercised supervisory authority over private education loan providers. The CFPB has been active in conducting investigations into the private student loan market and issuing several reports with findings that are critical of the private student loan market. The CFPB has initiated investigations into the lending practices of other institutions in the for-profit education sector. The CFPB has issued procedures for further examination of private education loans and published requests for information regarding repayment plans and regarding arrangements between schools and financial institutions. On August 31, 2017, the DOE informed CFPB that it was terminating an



information sharing Memorandum of Understanding between the two agencies, in part because the CFPB was acting on student complaints rather than referring them to the DOE for action. The DOE asserted full oversight responsibility for federal student loans, but not with respect to private loans. In late November 2017, new leadership at the CFPB began taking steps to end or pause certain investigations and to restrict or reconsider some its enforcement activities. However, it is unclear the extent to which the CFPB will continue to exercise oversight authority over private education loan providers.

We cannot predict whether any of this activity, or other activities, will result in Congress, the DOE, the CFPB or other regulators adopting new legislation or regulations, or conducting new investigations, into the private student loan market or into the loans received by our students to attend our institutions. Any new legislation, regulations, or investigations regarding private student lending could limit the availability of private student loans to our students, which could have a significant impact on our business and operations.

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RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

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

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

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

- Student dissatisfaction with our programs and services;

- Diminished access to high school student populations;
- Our failure to maintain or expand our brand or other factors related to our marketing or advertising practices; and
- Our inability to maintain relationships with employers in the automotive, diesel, skilled trades and IT services industries.

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

Our students and their families have benefitted from historic lows on student loan interest rates in recent years. Much of the financing our students receive is tied to floating interest rates. Recently, however, student loan interest rates have been edging higher, making borrowing for education more expensive. Increases in interest rates result in a corresponding increase in the cost to our existing and prospective students of financing their education, which could result in a reduction in the number of students attending our schools and could adversely affect our results of operations and revenues. Higher interest rates could also contribute to higher default rates with respect to our students' repayment of their education loans. Higher default rates may in turn adversely impact our eligibility for Title IV Program participation or the willingness of private lenders to make private loan programs available to students who attend our schools, which could result in a reduction in our student population.

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A substantial decrease in student financing options, or a significant increase in financing costs for our students, could have a significant impact on our student population, revenues and financial results.

The consumer credit markets in the United States have recently suffered from increases in default rates and foreclosures on mortgages. Adverse market conditions for consumer and federally guaranteed student loans could result in providers of alternative loans reducing the attractiveness and/or decreasing the availability of alternative loans to post-secondary students, including students with low credit scores who would not otherwise be eligible for credit-based alternative loans. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in post-secondary education programs. Private lenders could also require that we pay them new or increased fees in order to provide alternative loans to prospective students. If any of these scenarios were to occur, our students' ability to finance their education could be adversely affected and our student population could decrease, which could have a significant impact on our financial condition, results of operations and cash flows.

In addition, any actions by the U.S. Congress or by states that significantly reduce funding for Title IV Programs or other student financial assistance programs, or the ability of our students to participate in these programs, or establish different or more stringent requirements for our schools to participate in those programs, could have a significant impact on our student population, results of operations and cash flows.

Our total assets include substantial intangible assets. In the event that our schools do not achieve satisfactory operating results, we may be required to write-off a significant portion of unamortized intangible assets which would negatively affect our results of operations.

Our total assets reflect substantial intangible assets. At December 31, 2018, goodwill associated with our acquisitions increased to approximately 10.0% from 9.4% of total assets at December 31, 2017. On at least an annual basis, we assess whether there has been an impairment in the value of goodwill. If the carrying value of the tested asset exceeds its estimated fair value, impairment is deemed to have occurred. In this event, the amount is written down to fair value. Under current accounting rules, this would result in a charge to operating earnings. Any determination requiring the write-off of a significant portion of goodwill would negatively affect our results of operations and total capitalization, which could be material.

We cannot predict our future capital needs, and if we are unable to secure additional financing when needed, our operations and revenues would be adversely affected.

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

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

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

employees. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have an adverse effect on our ability to operate our business efficiently and to execute our growth strategy.

Strikes by our employees may disrupt our ability to hold classes as well as our ability to attract and retain students, which could materially adversely affect our operations. In addition, we contribute to multiemployer benefit plans that could result in liabilities to us if these plans are terminated or we withdraw from them.

As of December 31, 2018, the teaching professionals at six of our campuses are represented by unions and covered by collective bargaining agreements that expire between 2019 and 2022. Although we believe that we have good relationships with these unions and with our employees, any strikes or work stoppages by our employees could adversely impact our relationships with our students, hinder our ability to conduct business and increase costs.

We also contribute to multiemployer pension plans for some employees covered by collective bargaining agreements. These plans are not administered by us, and contributions are determined in accordance with provisions of negotiated labor contracts. The Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multiemployer plan in the event of the employer's withdrawal from, or upon termination of, such plan. We do not routinely review information on the net assets and actuarial present value of the multiemployer pension plans' unfunded vested benefits allocable to us, if any, and we are not presently aware of any material amounts for which we may be contingently liable if we were to withdraw from any of these plans. In addition, if any of these multiemployer plans enters "critical status" under the Pension Protection Act of 2006, we could be required to make significant additional contributions to those plans.

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

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

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

We can issue shares of preferred stock without stockholder approval, which could adversely affect the rights of common stockholders.

Our amended and restated certificate of incorporation permits us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our Company, depriving common stockholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

The trading price of our common stock may continue to fluctuate substantially in the future.

Our stock price has declined substantially over the past five years and has and may fluctuate significantly as a result of a number of factors, some of which are not in our control. These factors include:

- general economic conditions;
- general conditions in the for-profit, post-secondary education industry;
- negative media coverage of the for-profit, post-secondary education industry;
- failure of certain of our schools or programs to maintain compliance under the gainful employment regulation, 90-10 Rule or with financial responsibility standards;
- the impact of DOE rulemaking and other changes in the highly regulated environment in which we operate;
- the initiation, pendency or outcome of litigation, accreditation reviews and regulatory reviews, inquiries and investigations;
- loss of key personnel;

- quarterly variations in our operating results;
- our ability to meet or exceed, or changes in, expectations of investors and analysts, or the extent of analyst coverage of us; and
- decisions by any significant investors to reduce their investment in our common stock.

In addition, the trading volume of our common stock is relatively low. This may cause our stock price to react more to these factors and various other factors and may impact an investor's ability to sell our common stock at the desired time at a price considered satisfactory. Any of these factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent an investor from selling shares of our common stock at or above the price at which the investor purchased them.

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System disruptions to our technology infrastructure could impact our ability to generate revenue and could damage the reputation of our institutions.

The performance and reliability of our technology infrastructure is critical to our reputation and to our ability to attract and retain students. We license the software and related hosting and maintenance services for our online platform and our student information system from third-party software providers. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the unavailability of systems to us or our students or result in delays and/or errors in processing student financial aid and related disbursements. Any such system disruptions could impact our ability to generate revenue and affect our ability to access information about our students and could also damage the reputation of our institutions. Any of the cyber-attacks, breaches or other disruptions or damage described above could interrupt our operations, result in theft of our and our students' data or result in legal claims and proceedings, liability and penalties under privacy laws and increased cost for security and remediation, each of which could adversely affect our business and financial results. We may be required to expend significant resources to protect against system errors, failures or disruptions or to repair problems caused by any actual errors, disruptions or failures.

We are subject to privacy and information security laws and regulations due to our collection and use of personal information, and any violations of those laws or regulations, or any breach, theft or loss of that information, could adversely affect our reputation and operations.

Our efforts to attract and enroll students result in us collecting, using and storing substantial amounts of personal information regarding applicants, our students, their families and alumni, including social security numbers and financial data. We also maintain personal information about our employees in the ordinary course of our activities. Our services, the services of many of our health plan and benefit plan vendors, and other information can be accessed globally through the Internet. We rely extensively on our network of interconnected applications and databases for day to day operations as well as financial reporting and the processing of financial transactions. Our computer networks and those of our vendors that manage confidential information for us or provide services to our student may be vulnerable to cyber-attacks and breaches, acts of vandalism, ransomware, software viruses and other similar types of malicious activities.

Regular patching of our computer systems and frequent updates to our virus detection and prevention software with the latest virus and malware signatures may not catch newly introduced malware and viruses or "zero-day" viruses, prior to their infecting our systems and potentially disrupting our data integrity, taking sensitive information or affecting financial transactions. While we utilize security and business controls to limit access to and use of personal information, any breach of student or employee privacy or errors in storing, using or transmitting personal information could violate privacy laws and regulations resulting in fines or other penalties. A wide range of high profile data breaches in recent years has led to renewed interest in federal data and cybersecurity legislation that could increase our costs and/or require changes in our operating procedures or systems. A breach, theft or loss of personal information held by us or our vendors, or a violation of the laws and regulations governing privacy could have a material adverse effect on our reputation or result in lawsuits, additional regulation, remediation and compliance costs or investments in additional security systems to protect our computer networks, the costs of which may be substantial.

Changes in U.S. tax laws or adverse outcomes from examination of our tax returns could have an adverse effect upon our financial results.

We are subject to income tax requirements in various jurisdictions in the United States. Legislation or other changes in the tax laws of the jurisdictions where we do business could increase our liability and adversely affect our after-tax profitability. In addition, we are subject to examination of our income tax returns by the Internal Revenue Service and the taxing authorities of various states. We regularly assess the likelihood of adverse outcomes resulting from tax examinations to determine the adequacy of our provision for income taxes and we have accrued tax and related



interest for potential adjustments to tax liabilities for prior years. However, there can be no assurance that the outcomes from these tax examinations will not have a material effect, either positive or negative, on our business, financial conditions and results of operation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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As of December 31, 2018, we leased all of our facilities, except for our campuses in Nashville, Tennessee, Grand Prairie, Texas, and Denver, Colorado, and former school property in Suffield, Connecticut, which we own. We continue to re-evaluate our facilities to maximize our facility utilization and efficiency and to allow us to introduce new programs and attract more students. As of December 31, 2018, all of our existing leases expire between 2019 and 2030.

The following table provides information relating to our facilities as of December 31, 2018, including our corporate office:

Location	Brand	Approximate Square Footage
Las Vegas, Nevada	Euphoria Institute	19,000
Southington, Connecticut	Former Lincoln College of New England	113,000
Columbia, Maryland	Lincoln College of Technology	110,000
Denver, Colorado	Lincoln College of Technology	212,000
Grand Prairie, Texas	Lincoln College of Technology	146,000
Indianapolis, Indiana	Lincoln College of Technology	189,000
Marietta, Georgia	Lincoln College of Technology	30,000
Melrose Park, Illinois	Lincoln College of Technology	88,000
Allentown, Pennsylvania	Lincoln Technical Institute	26,000
East Windsor, Connecticut	Lincoln Technical Institute	289,000
Iselin, New Jersey	Lincoln Technical Institute	32,000
Lincoln, Rhode Island	Lincoln Technical Institute	39,000
Mahwah, New Jersey	Lincoln Technical Institute	79,000
Moorestown, New Jersey	Lincoln Technical Institute	35,000
New Britain, Connecticut	Lincoln Technical Institute	35,000
Paramus, New Jersey	Lincoln Technical Institute	30,000
Philadelphia, Pennsylvania	Lincoln Technical Institute	29,000
Queens, New York	Lincoln Technical Institute	48,000
Shelton, Connecticut	Lincoln Technical Institute and Lincoln Culinary Institute	47,000
Somerville, Massachusetts	Lincoln Technical Institute	33,000
South Plainfield, New Jersey	Lincoln Technical Institute	60,000
Union, New Jersey	Lincoln Technical Institute	56,000
Nashville, Tennessee	Lincoln College of Technology	281,000
West Orange, New Jersey	Corporate Office	52,000
Plymouth Meeting, Pennsylvania	Corporate Office	4,000
Suffield, Connecticut	Former Lincoln Technical Institute	132,000

We believe that our facilities are suitable for their present intended purposes.

ITEM 3. 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 effect on our business, financial

condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market for our Common Stock

Our common stock, no par value per share, is quoted on the Nasdaq Global Select Market under the symbol "LINC".

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On March 8, 2019, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$3.10 per share. As of March 8, 2019, based on the information provided by Continental Stock Transfer & Trust Company, there were 10 stockholders of record of our common stock.

Dividend Policy

The Company has not declared or paid any cash dividends on its 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.

Share Repurchases

The Company did not repurchase any shares of our common stock during the fourth quarter of the fiscal year ended December 31, 2018.

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Stock Performance Graph

This stock performance graph compares our total cumulative stockholder return on our common stock for the five years ended December 31, 2018 with the cumulative return on the Russell 2000 Index and a Peer Issuer Group Index. The peer issuer group consists of the companies identified below, which were selected on the basis of the similar nature of their business. The graph assumes that \$100 was invested on December 31, 2013 and any dividends were reinvested on the date on which they were paid.

The information provided under the heading "Stock Performance Graph" shall not be considered "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a filing.

Companies in the Peer Group include Career Education Corp., Adtalem Global Education Inc., ITT Educational Services, Inc., Strayer Education, Inc., Bridgepoint Education, Inc., Apollo Education Group, Inc., Grand Canyon University, Inc. and Universal Technical Institute, Inc.

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## Equity Compensation Plan Information

We have various equity compensation plans under which equity securities are authorized for issuance. Information regarding these securities as of December 31, 2018 is as follows:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	139,000	\$ 12.14	2,050,638
Equity compensation plans not approved by security holders	-	-	-
Total	139,000	\$ 12.14	2,050,638

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The following table sets forth our selected historical consolidated financial and operating data as of the dates and for the periods indicated. You should read these data together with Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated statement of operations data for each of the years in the three-year period ended December 31, 2018 and historical consolidated balance sheet data at December 31, 2018 and 2017 have been derived from our audited consolidated financial statements which are included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated statements of operations data for the fiscal years ended December 31, 2015 and 2014 and historical consolidated balance sheet data as of December 31, 2016, 2015 and 2014 have been derived from our consolidated financial information not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our future results.

2018	2017	2016	2015	2014
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(In thousands, except per share amounts)

Statement of Operations Data, Year Ended December

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Revenue