

LINCOLN EDUCATIONAL SERVICES CORP  
Form 10-Q  
May 06, 2011

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

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Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

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

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Commission File Number 000-51371

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

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

57-1150621  
(IRS Employer Identification No.)

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

07052  
(Zip Code)

(973) 736-9340

(Registrant's telephone number, including area code)

No change

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 4, 2011, there were 22,580,629 shares of the registrant’s common stock outstanding.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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## PART I –FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|                                                                                                                                                                                        | March 31,<br>2011 | December 31,<br>2010 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                          |                   |                      |
| <b>CURRENT ASSETS:</b>                                                                                                                                                                 |                   |                      |
| Cash and cash equivalents                                                                                                                                                              | \$ 43,664         | \$ 65,995            |
| Restricted cash                                                                                                                                                                        | 371               | 694                  |
| Accounts receivable, less allowance of \$21,990 and \$24,960 at March 31, 2011 and December 31, 2010, respectively                                                                     | 23,412            | 33,697               |
| Inventories                                                                                                                                                                            | 3,532             | 3,555                |
| Prepaid income taxes                                                                                                                                                                   | 958               | -                    |
| Deferred income taxes, net                                                                                                                                                             | 10,604            | 11,057               |
| Prepaid expenses and other current assets                                                                                                                                              | 2,423             | 2,494                |
| Total current assets                                                                                                                                                                   | 84,964            | 117,492              |
| <b>PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of \$117,356 and \$111,164 at March 31, 2011 and December 31, 2010, respectively</b> |                   |                      |
|                                                                                                                                                                                        | 175,616           | 172,431              |
| <b>OTHER ASSETS:</b>                                                                                                                                                                   |                   |                      |
| Noncurrent receivables, less allowance of \$1,797 and \$2,033 at March 31, 2011 and December 31, 2010, respectively                                                                    | 6,016             | 6,807                |
| Deferred finance charges, net                                                                                                                                                          | 897               | 987                  |
| Deferred income taxes, net                                                                                                                                                             | 1,592             | 1,524                |
| Goodwill                                                                                                                                                                               | 106,709           | 106,709              |
| Other assets, net                                                                                                                                                                      | 6,807             | 6,872                |
| Total other assets                                                                                                                                                                     | 122,021           | 122,899              |
| <b>TOTAL</b>                                                                                                                                                                           | <b>\$ 382,601</b> | <b>\$ 412,822</b>    |

See notes to unaudited condensed consolidated financial statements.

IndexLINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

(Continued)

|                                                                                                                                                                                                           | March 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                               |                   |                      |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                                               |                   |                      |
| Current portion of long-term debt and lease obligations                                                                                                                                                   | \$ 455            | \$ 437               |
| Unearned tuition                                                                                                                                                                                          | 49,768            | 50,944               |
| Accounts payable                                                                                                                                                                                          | 21,247            | 25,617               |
| Accrued expenses                                                                                                                                                                                          | 14,468            | 26,071               |
| Dividends payable                                                                                                                                                                                         | 11,209            | 16,650               |
| Advanced payments from federal funds                                                                                                                                                                      | 98                | 578                  |
| Income taxes payable                                                                                                                                                                                      | 2,439             | 1,044                |
| Other short-term liabilities                                                                                                                                                                              | 566               | 327                  |
| <b>Total current liabilities</b>                                                                                                                                                                          | <b>100,250</b>    | <b>121,668</b>       |
| <b>NONCURRENT LIABILITIES:</b>                                                                                                                                                                            |                   |                      |
| Long-term debt and lease obligations, net of current portion                                                                                                                                              | 36,391            | 56,508               |
| Pension plan liabilities, net                                                                                                                                                                             | 3,002             | 2,816                |
| Accrued rent                                                                                                                                                                                              | 7,874             | 7,758                |
| Other long-term liabilities                                                                                                                                                                               | 1,246             | 1,587                |
| <b>Total liabilities</b>                                                                                                                                                                                  | <b>148,763</b>    | <b>190,337</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                                                      |                   |                      |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                                                                              |                   |                      |
| Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2011 and December 31, 2010                                                                    | -                 | -                    |
| Common stock, no par value - authorized 100,000,000 shares at March 31, 2011 and December 31, 2010, issued and outstanding 28,328,299 shares at March 31, 2011 and 28,109,987 shares at December 31, 2010 | 140,839           | 140,726              |
| Additional paid-in capital                                                                                                                                                                                | 18,426            | 17,378               |
| Treasury stock at cost - 5,910,541 shares at March 31, 2011 and December 31, 2010, respectively                                                                                                           | (82,860 )         | (82,860 )            |
| Retained earnings                                                                                                                                                                                         | 162,181           | 151,989              |
| Accumulated other comprehensive loss                                                                                                                                                                      | (4,748 )          | (4,748 )             |
| <b>Total stockholders' equity</b>                                                                                                                                                                         | <b>233,838</b>    | <b>222,485</b>       |
| <b>TOTAL</b>                                                                                                                                                                                              | <b>\$ 382,601</b> | <b>\$ 412,822</b>    |

See notes to unaudited condensed consolidated financial statements.

IndexLINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

|                                                       | Three Months Ended<br>March 31, |           |
|-------------------------------------------------------|---------------------------------|-----------|
|                                                       | 2011                            | 2010      |
| REVENUE                                               | \$145,358                       | \$152,466 |
| COSTS AND EXPENSES:                                   |                                 |           |
| Educational services and facilities                   | 59,016                          | 58,869    |
| Selling, general and administrative                   | 67,888                          | 68,273    |
| (Gain) loss on sale of assets                         | (21 )                           | 4         |
| Total costs & expenses                                | 126,883                         | 127,146   |
| OPERATING INCOME                                      | 18,475                          | 25,320    |
| OTHER:                                                |                                 |           |
| Interest income                                       | 3                               | 1         |
| Interest expense                                      | (1,092 )                        | (1,195 )  |
| Other income                                          | 6                               | -         |
| INCOME BEFORE INCOME TAXES                            | 17,392                          | 24,126    |
| PROVISION FOR INCOME TAXES                            | 7,036                           | 9,666     |
| NET INCOME                                            | \$10,356                        | \$14,460  |
| Basic                                                 |                                 |           |
| Net income per share                                  | \$0.47                          | \$0.57    |
| Diluted                                               |                                 |           |
| Net income per share                                  | \$0.46                          | \$0.55    |
| Weighted average number of common shares outstanding: |                                 |           |
| Basic                                                 | 21,943                          | 25,558    |
| Diluted                                               | 22,418                          | 26,336    |

See notes to unaudited condensed consolidated financial statements.

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

|                                                             | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|-------------------------------------------------------------|------------------------|------------------------|----------------------------------|-------------------|----------------------|-----------------------------------------------|------------|
| BALANCE -<br>January 1, 2011                                | 28,109,987             | \$ 140,726             | \$ 17,378                        | \$ (82,860 )      | \$ 151,989           | \$ (4,748 )                                   | \$ 222,485 |
| Net income                                                  | -                      | -                      | -                                | -                 | 10,356               | -                                             | 10,356     |
| Stock-based compensation expense                            |                        |                        |                                  |                   |                      |                                               |            |
| Restricted stock                                            | 219,325                | -                      | 1,208                            | -                 | -                    | -                                             | 1,208      |
| Stock options                                               | -                      | -                      | 108                              | -                 | -                    | -                                             | 108        |
| Tax benefit of<br>options exercised                         | -                      | -                      | 91                               | -                 | -                    | -                                             | 91         |
| Net share<br>settlement for<br>equity-based<br>compensation | (23,363 )              | -                      | (359 )                           | -                 | -                    | -                                             | (359 )     |
| Cash dividend<br>declared true-up                           | -                      | -                      | -                                | -                 | (164 )               | -                                             | (164 )     |
| Exercise of stock<br>options                                | 22,350                 | 113                    | -                                | -                 | -                    | -                                             | 113        |
| BALANCE -<br>March 31, 2011                                 | 28,328,299             | \$ 140,839             | \$ 18,426                        | \$ (82,860 )      | \$ 162,181           | \$ (4,748 )                                   | \$ 233,838 |

See notes to unaudited condensed consolidated financial statements.

IndexLINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                   | Three Months Ended<br>March 31, |                  |
|-----------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                   | 2011                            | 2010             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |                  |
| Net income                                                                        | \$10,356                        | \$14,460         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                  |
| Depreciation and amortization                                                     | 6,908                           | 6,453            |
| Amortization of deferred finance charges                                          | 90                              | 89               |
| Deferred income taxes                                                             | 385                             | (12 )            |
| (Gain) loss on disposition of assets                                              | (21 )                           | 4                |
| Provision for doubtful accounts                                                   | 6,743                           | 8,488            |
| Stock-based compensation expense                                                  | 1,316                           | 680              |
| Tax benefit associated with exercise of stock options                             | (91 )                           | (367 )           |
| Deferred rent                                                                     | 248                             | 338              |
| (Increase) decrease in assets:                                                    |                                 |                  |
| Accounts receivable                                                               | 4,333                           | (806 )           |
| Inventories                                                                       | 23                              | 102              |
| Prepaid expenses and current assets                                               | (502 )                          | 945              |
| Other assets                                                                      | (164 )                          | (1,145 )         |
| Increase (decrease) in liabilities:                                               |                                 |                  |
| Accounts payable                                                                  | (1,806 )                        | 457              |
| Income taxes payable                                                              | 528                             | (1,024 )         |
| Accrued expenses                                                                  | (11,735 )                       | (9,111 )         |
| Pension plan liabilities                                                          | (63 )                           | (30 )            |
| Advance from federal funds                                                        | (480 )                          | (518 )           |
| Unearned tuition                                                                  | (1,176 )                        | 1,954            |
| Other liabilities                                                                 | 147                             | 198              |
| Total adjustments                                                                 | 4,683                           | 6,695            |
| Net cash provided by operating activities                                         | 15,039                          | 21,155           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |                  |
| Restricted cash                                                                   | 323                             | 484              |
| Capital expenditures                                                              | (11,860 )                       | (14,888 )        |
| Proceeds from sale of property and equipment                                      | 26                              | -                |
| Net cash used in investing activities                                             | (11,511 )                       | (14,404 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |                  |
| Payments on borrowings                                                            | (20,000 )                       | (20,000 )        |
| Proceeds from exercise of stock options                                           | 113                             | 802              |
| Tax benefit associated with exercise of stock options                             | 91                              | 367              |
| Net share settlement for equity-based compensation                                | (359 )                          | (102 )           |
| Dividends paid                                                                    | (5,605 )                        | -                |
| Principal payments under capital lease obligations                                | (99 )                           | (102 )           |
| Net cash used in financing activities                                             | (25,859 )                       | (19,035 )        |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>(22,331 )</b>                | <b>(12,284 )</b> |

|                                               |          |          |
|-----------------------------------------------|----------|----------|
| CASH AND CASH EQUIVALENTS—Beginning of period | 65,995   | 46,076   |
| CASH AND CASH EQUIVALENTS—End of period       | \$43,664 | \$33,792 |

See notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

(Continued)

| Three Months Ended |      |
|--------------------|------|
| March 31,          |      |
| 2011               | 2010 |

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

|              |         |          |
|--------------|---------|----------|
| Interest     | \$972   | \$1,071  |
| Income taxes | \$6,221 | \$11,183 |

## SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

|                                                      |         |         |
|------------------------------------------------------|---------|---------|
| Liabilities accrued for the purchase of fixed assets | \$2,904 | \$2,792 |
|------------------------------------------------------|---------|---------|

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousands, except share and per share amounts and unless otherwise stated)

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activities – Lincoln Educational Services Corporation and subsidiaries (the “Company”) is a provider of diversified career-oriented post-secondary education. The Company offers recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. The Company currently has 45 schools in 17 states across the United States.

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

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

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

Stock-Based Compensation –The accompanying condensed consolidated statements of income include stock-based compensation expense of approximately \$1.3 million and \$0.7 million for the three months ended March 31, 2011 and 2010, respectively. The Company uses the Black-Scholes valuation model and utilizes straight-line amortization of compensation expense over the requisite service period of the grant. The Company makes an estimate of expected forfeitures at the time options are granted.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued an accounting standard on variable interest entities to address the elimination of the concept of a qualifying special purpose entity. This standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, it provides more timely and useful information about an enterprise’s involvement with a

variable interest entity. The standard became effective for the Company on January 1, 2010. The adoption of this standard had no effect on the Company's condensed consolidated financial statements.

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## 2. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted income per share for the three months ended March 31, 2011 and 2010, respectively, was as follows:

|                                  | Three Months Ended<br>March 31, |            |
|----------------------------------|---------------------------------|------------|
|                                  | 2011                            | 2010       |
| Basic shares outstanding         | 21,942,918                      | 25,558,403 |
| Dilutive effect of stock options | 475,129                         | 777,256    |
| Diluted shares outstanding       | 22,418,047                      | 26,335,659 |

For the three months ended March 31, 2011 and 2010, options to acquire 313,333 and 51,000 shares, respectively, were excluded from the above table because they have an exercise price that is greater than the average market price of the Company's common stock and therefore their impact on reported earnings per share would have been antidilutive.

## 3. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill at March 31, 2011 is as follows:

|                               |            |
|-------------------------------|------------|
| Goodwill                      | \$ 115,303 |
| Accumulated impairment losses | (8,594 )   |
|                               | \$ 106,709 |

There have been no changes in the carrying amount of goodwill from December 31, 2010 through March 31, 2011.

The Company reviews intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill for impairment, with any resulting impairment reflected as an operating expense. Intangible assets, which are included in other assets in the accompanying condensed consolidated balance sheets, consist of the following:

|                             | Student<br>Contracts | Indefinite<br>Trade<br>Name | Trade Name | Accreditation | Curriculum | Non-compete | Total     |
|-----------------------------|----------------------|-----------------------------|------------|---------------|------------|-------------|-----------|
| Gross carrying amount at    |                      |                             |            |               |            |             |           |
| December 31, 2010           | \$ 4,827             | \$ 660                      | \$ 839     | \$ 2,307      | \$ 1,150   | \$ 2,181    | \$ 11,964 |
| Gross carrying amount at    |                      |                             |            |               |            |             |           |
| March 31, 2011              | 4,827                | 660                         | 839        | 2,307         | 1,150      | 2,181       | 11,964    |
| Accumulated amortization at |                      |                             |            |               |            |             |           |
| December 31, 2010           | 4,824                | -                           | 503        | -             | 505        | 1,478       | 7,310     |
| Amortization                | 3                    | -                           | 22         | -             | 29         | 175         | 229       |
| Accumulated amortization    | 4,827                | -                           | 525        | -             | 534        | 1,653       | 7,539     |

at March 31, 2011

Net carrying  
amount

|                   |      |        |        |          |        |        |          |
|-------------------|------|--------|--------|----------|--------|--------|----------|
| at March 31, 2011 | \$ - | \$ 660 | \$ 314 | \$ 2,307 | \$ 616 | \$ 528 | \$ 4,425 |
|-------------------|------|--------|--------|----------|--------|--------|----------|

Weighted average  
amortization period

|         |   |            |   |            |    |   |  |
|---------|---|------------|---|------------|----|---|--|
| (years) | 2 | Indefinite | 4 | Indefinite | 10 | 3 |  |
|---------|---|------------|---|------------|----|---|--|

Amortization of intangible assets was approximately \$0.2 million and \$0.8 million for the three months ended March 31, 2011 and 2010, respectively.

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The following table summarizes the estimated future amortization expense:

|                          |    |       |
|--------------------------|----|-------|
| Year Ending December 31, |    |       |
| Remaining of 2011        | \$ | 654   |
| 2012                     |    | 232   |
| 2013                     |    | 181   |
| 2014                     |    | 160   |
| 2015                     |    | 91    |
| Thereafter               |    | 140   |
|                          | \$ | 1,458 |

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## 4. LONG-TERM DEBT AND LEASE OBLIGATIONS

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

|                                                            | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------------------|-------------------|----------------------|
| Credit agreement (a)                                       | \$ -              | \$ 20,000            |
| Finance obligation (b)                                     | 9,672             | 9,672                |
| Capital lease-property (rate of 8.0%) (c)                  | 26,929            | 26,986               |
| Capital leases-equipment (rates ranging from 5.0% to 8.5%) | 245               | 287                  |
|                                                            | 36,846            | 56,945               |
| Less current maturities                                    | (455 )            | (437 )               |
|                                                            | \$ 36,391         | \$ 56,508            |

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

Amounts borrowed as revolving loans under the Credit Facility will bear interest, at the Company's option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the "Euro Dollar Rate") for specified interest periods or (ii) the Base Rate (as defined in the Credit Agreement), in each case, plus an applicable margin rate as determined under the Credit Agreement. The "Base Rate," as defined under the Credit Agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one month of the Euro Dollar Rate plus 1.0%. Under the Credit Agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in the Company's consolidated leverage ratio and depending on whether the Company has chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At March 31, 2011 and December 31, 2010, the Company had outstanding letters of credit aggregating \$1.9 million which were primarily comprised of letters of credit for the Department of Education matters and real estate leases.

The Credit Agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, the Company is paying fees to the lenders that are customary for facilities of this type. As of March 31, 2011, the Company was in compliance with the covenants contained in the credit agreement.

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

(b) The Company completed a sale and a leaseback of several facilities on December 28, 2001. The Company retains a continuing involvement in the lease and as a result it is prohibited from utilizing sale-leaseback accounting.

Accordingly, the Company has treated this transaction as a finance lease. The lease expiration date is December 31, 2016.

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

## 5. STOCKHOLDERS' EQUITY

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

Under the LTIP, certain employees received awards of restricted shares of common stock. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant. As of March 31, 2011, there were a total of 640,325 restricted shares awarded and 248,061 shares vested under the LTIP. The restricted shares granted prior to February 23, 2011 vest ratably on the first through fifth anniversary of the grant date. The restricted shares granted on February 23, 2011 vest ratably on the grant date and the first through fourth anniversary of the grant date. There is no vesting period on the right to vote or the right to receive dividends on any of the restricted shares. The recognized restricted stock expense for the three months ended March 31, 2011 and 2010 was \$1.1 million and \$0.3 million, respectively. The unrecognized restricted stock expense under the LTIP as of March 31, 2011 and December 31, 2010 was \$5.7 million and \$3.4 million, respectively.

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Pursuant to the Non-Employee Directors Plan, each non-employee director of the Company receives an annual award of restricted shares of common stock on the date of the Company's annual meeting of shareholders. The number of shares granted to each non-employee director is based on the fair market value of a share of common stock on that date. The restricted shares vest ratably on the first through third anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. Beginning in 2010, all new awards of common stock granted under the Non-Employee Directors Plan vest on the first anniversary of the grant date. As of March 31, 2011, there were a total of 126,901 shares awarded less 5,035 shares canceled and 84,954 shares vested under the Non-Employee Directors Plan. The recognized restricted stock expense for the three months ended March 31, 2011 and 2010 was \$0.2 million. The unrecognized restricted stock expense under the Non-Employee Directors Plan as of March 31, 2011 and December 31, 2010 was \$0.2 million and \$0.3 million, respectively.

For the three months ended March 31, 2011 and 2010, the Company completed a net share settlement for 23,363 and 4,586 restricted shares, respectively, on behalf of some employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP. The net share settlement was in connection with income taxes incurred on restricted shares that vested and were transferred to the employee during 2011 and/or 2010, creating taxable income for the employee. The Company has agreed to pay these taxes on behalf of the employees in return for the employee returning an equivalent value of restricted shares to the Company. This transaction resulted in a decrease of approximately \$0.4 million and \$0.1 million for the three months ended March 31, 2011 and 2010, respectively.

## Fair Value of Stock Options

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

|                                  | Shares    | Weighted<br>Average<br>Exercise Price<br>Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>intrinsic Value<br>(in thousands) |
|----------------------------------|-----------|----------------------------------------------------|---------------------------------------------------------|------------------------------------------------|
| Outstanding December 31, 2010    | 720,940   | 14.59                                              | 5.14 years                                              | \$ 2,095                                       |
| Exercised                        | (22,350 ) | 5.05                                               |                                                         | 236                                            |
| Outstanding March 31, 2011       | 698,590   | 14.89                                              | 5.01 years                                              | 2,007                                          |
| Vested or expected to vest       | 676,358   | 14.75                                              | 4.89 years                                              | 1,996                                          |
| Exercisable as of March 31, 2011 | 587,432   | 14.07                                              | 4.30 years                                              | 1,950                                          |

As of March 31, 2011, the unrecognized pre-tax compensation expense for all unvested stock option awards was \$0.6 million. This amount will be expensed over the weighted-average period of approximately 2.15 years.

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The following table presents a summary of stock options outstanding:

| Range of Exercise Prices | At March 31, 2011         |             |          | Stock Options Exercisable |          |
|--------------------------|---------------------------|-------------|----------|---------------------------|----------|
|                          | Stock Options Outstanding | Contractual | Weighted | Shares                    | Weighted |
|                          | Shares                    | Average     | Average  |                           | Exercise |
|                          |                           | life        | Price    |                           | Price    |
|                          |                           | (years)     |          |                           |          |
| \$3.10                   | 88,047                    | 0.83        | \$ 3.10  | 88,047                    | \$ 3.10  |
| \$4.00-\$13.99           | 160,960                   | 6.37        | 11.96    | 148,130                   | 11.97    |
| \$14.00-\$19.99          | 302,083                   | 5.04        | 16.42    | 261,755                   | 15.97    |
| \$20.00-\$25.00          | 147,500                   | 5.97        | 22.00    | 89,500                    | 22.82    |
|                          | 698,590                   | 5.01        | 14.89    | 587,432                   | 14.07    |

## 6. INCOME TAXES

The effective tax rate for the three months ended March 31, 2011 and 2010 was 40.5% and 40.1%, respectively.

## 7. CONTINGENCIES

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

The Company and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that the Company and the other defendants made false and misleading statements and failed to disclose material adverse facts about the Company's business and prospects in violation of federal securities laws. The plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al., and Robert Lyathaud v. Lincoln Educational Services Corp., et al. On November 24, 2010, the Court consolidated the two actions under the caption In re Lincoln Educational Services Corp. Securities Litigation and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011. On April 15, 2011, defendants filed a motion to dismiss all of the claims asserted therein. Plaintiff's response to defendants' motion is due by June 14, 2011.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned Mike Schweertmann v. David F. Carney, et al. The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned Gregory and Karen Lehner v. Shaun E. McAlmont, et al. The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned Steven C. Lloyd and Paul Stone v. David F. Carney, et al. All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On March 3, 2011, the Court entered an order staying the Schweertmann action pending the resolution of defendants' motion to dismiss in In re Lincoln Educational Services Corp. Securities Litigation. On March 22, 2011, the Court entered an order staying

the Lehner action pending the resolution of defendants' motion to dismiss in In re Lincoln Educational Services Corp. Securities Litigation. Defendants in the Lloyd action have been served.

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

8. PENSION PLAN

The Company sponsors a noncontributory defined benefit pension plan covering substantially all of the Company's union employees. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994 for non-union employees. The total amount of the Company's contributions paid under its pension plan was \$63 thousand and \$30 thousand for the three months ended March 31, 2011 and 2010, respectively. The net periodic benefit cost was \$0.2 million for the three months ended March 31, 2011 and 2010, respectively.

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9. DIVIDENDS

On November 3, 2010, the Company's Board of Directors declared an annual cash dividend of \$1.00 per share of common stock outstanding, payable quarterly. The dividend was recorded as a reduction to retained earnings as of December 31, 2010 and adjusted for actual payments as of March 31, 2011. The record date for the second quarterly dividend payment of \$5.6 million was March 15, 2011 and the payment date was March 31, 2011. The establishment of future record and payment dates is subject to the final determination of the Company's Board of Directors.

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

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

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

General

We are a leading provider of diversified career-oriented post-secondary education. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. Each area of study is specifically designed to appeal to and meet the educational objectives of our student population, while also satisfying the criteria established by industry and employers. The resulting diversification limits dependence on any one industry for enrollment growth or placement opportunities and broadens our opportunities for introducing new programs. As of March 31, 2011, 26,667 students were enrolled at our 45 campuses across 17 states. Our campuses primarily attract students from their local communities and surrounding areas, although our five destination campuses attract students from across the United States, and in some cases, from abroad.

Critical Accounting Policies and Estimates

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

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

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

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Our bad debt expense as a percentage of revenues for the three months ended March 31, 2011 and 2010 was 4.6% and 5.6%, respectively. Our exposure to changes in our bad debt expense could impact our operations. A 1% increase in our bad debt expense as a percentage of revenues for the three months ended March 31, 2011 and 2010 would have resulted in an increase in bad debt expense of \$1.5 million in each period.

We do not believe that there is any direct correlation between tuition increases, the credit we extend to students and our loan commitments. Our loan commitments to our students are made on a student-by-student basis and are predominantly a function of the specific student's financial condition. We only extend credit to the extent there is a financing gap between the tuition charged for the program and the amount of grants, loans and parental loans each student receives. Each student's funding requirements are unique. Factors that determine the amount of aid available to a student are student status (whether they are dependent or independent students), Pell Grants awarded, Plus loans awarded or denied to parents and family contributions. As a result, it is extremely difficult to predict the number of students that will need us to extend credit to them. Our tuition increases have ranged historically from 3% to 5% annually and have not meaningfully impacted overall funding requirements, since the amount of financial aid funding available to students in recent years has increased at greater rates than our tuition increases.

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

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

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

Goodwill represents a significant portion of our total assets. As of March 31, 2011, goodwill represented approximately \$106.7 million, or 27.9%, of our total assets.

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

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

approximated its implied value. No events have occurred subsequently that would have required retesting since that evaluation took place.

**Bonus costs.** We accrue the estimated cost of our bonus programs using current financial and statistical information as compared to targeted financial achievements and key performance objectives. Although we believe our estimated liability recorded for bonuses is reasonable, actual results could differ and require adjustment of the recorded balance.

**Effect of Inflation**

Inflation has not had a material effect on our operations.

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## Results of Operations

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

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

|                                     | Three Months Ended |   |       |   |
|-------------------------------------|--------------------|---|-------|---|
|                                     | 2011               |   | 2010  |   |
|                                     |                    | % |       | % |
| Revenue                             | 100.0              | % | 100.0 | % |
| Costs and expenses:                 |                    |   |       |   |
| Educational services and facilities | 40.6               | % | 38.6  | % |
| Selling, general and administrative | 46.7               | % | 44.8  | % |
| Total costs and expenses            | 87.3               | % | 83.4  | % |
| Operating income                    | 12.7               | % | 16.6  | % |
| Interest expense, net               | -0.7               | % | -0.8  | % |
| Income before income taxes          | 12.0               | % | 15.8  | % |
| Provision for income taxes          | 4.9                | % | 6.3   | % |
| Net income                          | 7.1                | % | 9.5   | % |

## Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenue. Revenue decreased by \$7.1 million, or 4.7%, to \$145.4 million for the quarter ended March 31, 2011 from \$152.5 million for the quarter ended March 31, 2010. This decrease was primarily attributable to a 7.8% decrease in average student population to 28,449 for the quarter ended March 31, 2011, from 30,872 for the quarter ended March 31, 2010. Average revenue per student increased 3.5% for the quarter ended March 31, 2011 from the quarter ended March 31, 2010, primarily from tuition increases which ranged from 3% to 5% annually offset by a shift in program mix. For a general discussion of trends in our student enrollment, see "Seasonality and Trends" below.

Educational services and facilities expenses. Our educational services and facilities expenses increased by \$0.1 million, or 0.2%, to \$59.0 million for the quarter ended March 31, 2011 from \$58.9 million for the quarter ended March 31, 2010. This increase in educational services and facilities expenses was due to a \$1.1 million, or 3.5%, increase in instructional expenses and a \$0.6 million increase in depreciation expense, partially offset by a \$1.6 million, or 19.8%, decrease in books and tools expense. The increase in instructional expenses is mainly attributable to annual compensation increases for instructional personnel and the hiring of additional instructors to service both our growing student population throughout 2010 as well as our three new facilities. The increase in depreciation expense was due to higher capital expenditures during 2010. The decrease in books and tools expense was attributable to a 7.8% reduction in average student population resulting from a reduction in student starts of approximately 3,700 for the quarter ended March 31, 2011, compared to the quarter ended March 31, 2010. As a result of the foregoing, educational services and facilities expenses, as a percentage of revenue, increased to 40.6% for the quarter ended March 31, 2011 from 38.6% for the quarter ended March 31, 2010.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the quarter ended March 31, 2011 were \$67.9 million, a decrease of \$0.4 million, or 0.6%, from \$68.3 million for the quarter ended March 31, 2010. This decrease in our selling, general and administrative expenses was primarily due to a \$2.0 million, or 5.5%, decrease in administrative expenses, partially offset by a \$1.3 million, or 5.1%, increase in sales and marketing and a \$0.4 million, or 5.8%, increase in student services expenses.

The decrease in administrative expenses during the quarter ended March 31, 2011 was primarily due to a \$1.7 million reduction in bad debt expense and a \$0.2 million reduction in administrative depreciation, partially offset by additional administration expenses at our new campuses.

The increase in sales and marketing expenses during the quarter ended March 31, 2011 was primarily due to \$0.3 million in annual compensation increases for admissions personnel, a \$0.7 million increase in marketing initiatives in an effort to increase our growth, and a \$0.4 million in sales and marketing expenses at our new campuses.

The increase in student services was primarily the result of an addition of 15 employees within the career services, financial aid and default management departments. We increased our career services personnel to further assist our students with their job placement efforts as a result of a continuingly challenging job market. The current economic environment has also resulted in increases in our cohort default rates. As a result, we added default management personnel to help enhance the financial literacy of our students and graduates, with the goal of helping students remain current in their loan payments. We also increased the number of personnel in our financial aid department in an effort to improve the efficiency of our financial aid processing.

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As a percentage of revenues, selling, general and administrative expenses for the quarter ended March 31, 2011 increased to 46.7% from 44.8% for the quarter ended March 31, 2010.

Our bad debt expense as a percentage of revenue was 4.6% for the quarter ended March 31, 2011 as compared to 5.6% for the same period in 2010. The reduction in bad debt as a percentage of revenue reflects our improved financial aid packaging process, which resulted in timelier processing of financial aid and greater cash collections. The number of days revenue outstanding at March 31, 2011 decreased to 18.2 days, compared to 20.8 days at March 31, 2010. As of March 31, 2011, we had outstanding loan commitments to our students of \$14.1 million as compared to \$17.3 million at December 31, 2010. Loan commitments, net of interest that would be due on the loans through maturity, were \$12.8 million at March 31, 2011 as compared to \$15.4 million at December 31, 2010.

Net interest expense. Our net interest expense for the quarter ended March 31, 2011 was \$1.1 million, a decrease of \$0.1 million from the quarter ended March 31, 2010.

Income taxes. Our provision for income taxes for the quarter ended March 31, 2011 was \$7.0 million, or 40.5% of pretax income, compared to \$9.7 million, or 40.1% of pretax income for the quarter ended March 31, 2010. The effective tax rate increased due to shifts in state taxable income among various states.

## Liquidity and Capital Resources

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

The following chart summarizes the principal elements of our cash flows:

|                                           | Three Months Ended<br>March 31, |              |
|-------------------------------------------|---------------------------------|--------------|
|                                           | 2011                            | 2010         |
|                                           | (In thousands)                  |              |
| Net cash provided by operating activities | \$ 15,039                       | \$ 21,155    |
| Net cash used in investing activities     | \$ (11,511 )                    | \$ (14,404 ) |
| Net cash used in financing activities     | \$ (25,859 )                    | \$ (19,035 ) |

At March 31, 2011, we had cash and cash equivalents of \$43.7 million, representing a decrease of approximately \$22.3 million as compared to \$66.0 million as of December 31, 2010. This decrease is primarily due to the repayment of \$20.0 million of borrowings under our credit facility during the first quarter of 2011 as well as the payment of dividends amounting to \$5.6 million. Historically, we have financed our operating activities and organic growth primarily through cash generated from operations. We have financed acquisitions primarily through borrowings under our credit facility and cash generated from operations. We currently anticipate that we will be able to meet both our short-term cash needs, as well as our need to fund operations and meet our obligations beyond the next twelve months with cash generated by operations, existing cash balances and, if necessary, borrowings under our credit facility. In addition, we may also consider accessing the financial markets in the future as a source of liquidity for capital requirements, acquisitions and general corporate purposes to the extent such requirements are not satisfied by cash on hand, borrowings under our credit facility or operating cash flows. However, we cannot assure you that we will be able to raise additional capital on favorable terms, if at all. At March 31, 2011, we had net borrowings available under our \$115 million credit agreement of approximately \$113.1 million, including a \$23.1 million sub-limit on letters of credit. The credit agreement matures on December 1, 2012. As of March 31, 2011, we had no amounts outstanding under our credit agreement.

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

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As a result of the significance of the Title IV funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV funds that our students are eligible to receive or any impact on our ability to be able to receive Title IV funds would have a significant impact on our operations and our financial condition. See "Risk Factors" in Item 1A, included in our Annual Report on Form 10-K for the year ended December 31, 2010.

### Operating Activities

Net cash provided by operating activities was \$15.0 million for the three months ended March 31, 2011 as compared to \$21.2 million for three months ended March 31, 2010. The \$6.1 million decrease in net cash provided by operating activities primarily resulted from a reduction in net income of approximately \$4.1 million. The remainder of the decrease was attributable to cash provided by other working capital items during the three months ended March 31, 2011 as compared to the three months ended March 31, 2010.

### Investing Activities

Net cash used in investing activities decreased by \$2.9 million to \$11.5 million for the three months ended March 31, 2011 from \$14.4 million for the three months ended March 31, 2010. This decrease was primarily attributable to a \$3.0 million reduction in cash used for capital expenditures for the three months ended March 31, 2011 as compared to the same period in 2010. Our 2011 capital expenditures mainly resulted from leasehold improvements, facility expansions and relocations as well as investments in campuses, classroom furniture and shop technology.

We currently lease a majority of our campuses. We own our campuses in Grand Prairie, Texas; West Palm Beach, Florida; Nashville, Tennessee; Cincinnati (Tri-County), Ohio; and Suffield, Connecticut. In addition, we purchased a building in Denver, Colorado in 2009 which will be occupied by our existing Denver, Colorado campus once construction is complete during the third quarter of 2011. Although our current growth strategy is to continue our organic growth, strategic acquisitions of operations will be considered. To the extent that these potential strategic acquisitions are large enough to require financing beyond available cash from operations and borrowings under our credit facilities, we may incur additional debt and/or issue additional debt or equity securities.

Capital expenditures are expected to continue to increase in the remainder of 2011 as we continue to construct our new Denver, Colorado facility, open a new start-up campus, upgrade and expand current equipment and facilities and expand new facilities. We anticipate capital expenditures to range from 7% to 9% of revenues in 2011 and expect to fund these capital expenditures with cash generated from operating activities and, if necessary, with borrowings under our credit facility.

### Financing Activities

Net cash used in financing activities increased by \$6.8 million to \$25.9 million for the three months ended March 31, 2011, from \$19.0 million for the three months ended March 31, 2010. This increase was primarily attributable to our payment of \$5.6 million of dividends during the first quarter of 2011 and a \$0.7 million reduction in proceeds from the exercise of stock options in the first quarter of 2011 as compared to the same period in 2010.

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

Amounts borrowed as revolving loans under the credit facility will bear interest, at our option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations, or

the "Euro Dollar Rate," for specified interest periods or (ii) the Base Rate (as defined in the credit agreement), in each case, plus an applicable margin rate as determined under the credit agreement. The "Base Rate," as defined under the credit agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one-month of the Euro Dollar Rate plus 1.0%. Under the credit agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in our consolidated leverage ratio and depending on whether we have chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At March 31, 2011, we had outstanding letters of credit aggregating \$1.9 million which is primarily comprised of letters of credit for the DOE matters and security deposits in connection with certain of our real estate leases. The credit agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, we are paying fees to the lenders that are customary for facilities of this type.

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

|                                                            | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------------------|-------------------|----------------------|
| Credit agreement                                           | \$ -              | \$ 20,000            |
| Finance obligation                                         | 9,672             | 9,672                |
| Capital lease-property (a rate of 8.0%)                    | 26,929            | 26,986               |
| Capital leases-equipment (rates ranging from 5.0% to 8.5%) | 245               | 287                  |
| Subtotal                                                   | 36,846            | 56,945               |
| Less current maturities                                    | (455 )            | (437 )               |
| Total long-term debt                                       | \$ 36,391         | \$ 56,508            |

We believe that our working capital, cash flows from operations, access to operating leases and borrowings available from our credit agreement will provide us with adequate resources for our ongoing operations through 2011 as well as our currently identified and planned capital expenditures.

## Contractual Obligations

Long-term Debt. As of March 31, 2011, our long-term debt consisted of the finance obligation in connection with our sale-leaseback transaction in 2001 and amounts due under capital lease obligations.

Lease Commitments. We lease offices, educational facilities and equipment for varying periods through the year 2031 at base annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of March 31, 2011 (in thousands):

|                                     | Total     | Payments Due by Period |           |           |                  |
|-------------------------------------|-----------|------------------------|-----------|-----------|------------------|
|                                     |           | Less than 1<br>year    | 2-3 years | 4-5 years | After<br>5 years |
| Capital leases (including interest) | \$57,113  | \$2,590                | \$5,109   | \$4,989   | \$44,425         |
| Uncertain income taxes              | 100       | 100                    | -         | -         | -                |
| Operating leases                    | 184,352   | 23,641                 | 45,715    | 39,483    | 75,513           |
| Rent on finance obligation          | 8,415     | 1,463                  | 2,927     | 2,927     | 1,098            |
| Total contractual cash obligations  | \$249,980 | \$27,794               | \$53,751  | \$47,399  | \$121,036        |

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2011, except for our letters of credit of \$1.9 million which are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

## Seasonality and Trends

## Seasonality

Our revenue and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. Student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our first and second quarters and we have experienced larger class starts in the third and fourth quarters and student attrition in the first half of the year.

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

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### 90/10 Rule

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

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

Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the Federal Family Education Loan Program, or FFEL, increased. This loan limit increase, coupled with recent increases in grants from the Pell program and other Title IV loan limits, will result in some of our schools experiencing an increase in the revenues they receive from the Title IV programs. The HEA reauthorization provided temporary relief from the impact of the loan limit increases by counting as non-Title IV revenue in the 90/10 Rule calculation amounts received from loans received between July 1, 2008 and June 30, 2011 that are attributable to the increased annual loan limits. The HEA authorization also provided other relief by allowing institutions to include as non-Title IV revenue in its 90/10 Rule calculation the net present value of certain institutional loans subject to certain limitations and conditions. During 2010 and continuing into 2011, we have seen a reduction in the loan commitments we offer our students to help them bridge the gap between the tuition charged for their particular program and the amount of grants, third-party loans and parental assistance each student receives. We believe that these reductions are due to increases in student loan limits available to students as well as an increase in Pell Grants. As a result, a greater percentage of students are able to finance their educations entirely from financial aid sources. While this provides greater opportunities for our students, it also severely impacts our ability to comply with the 90/10 Rule. Because of the increases in Title IV student loan limits and grants in recent years, it will be increasingly difficult for us to comply with the 90/10 Rule without increasing tuition prices above the applicable maximums for Title IV student loans and grants, because this is one of the more effective methods of reducing the 90/10 Rule percentage, although this method may not be successful. Moreover, the aforementioned temporary relief under the HEA for calculating 90/10 Rule compliance is scheduled to expire for loans received on or after July 1, 2011 and for institutional loans made on or after July 1, 2012. If any of our institutions loses eligibility to participate in Title IV programs, that loss would cause an event of default under our credit agreement, and would also adversely affect our students’ access to various government-sponsored student financial aid programs, which could have a material adverse effect on the rate at which our students enroll in our programs and on our business and results of operations.

### Cohort Default Rates

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

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

remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's cohort default rate equals or exceeds 25% in any of its three most recent fiscal years, the institution may be placed on provisional certification status.

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

On September 13, 2010 the DOE published final two-year cohort default rates for each of our institutions for the 2008 federal fiscal year, which rates range from 4.1% to 26.3%. As a result, one of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for the 2008 federal fiscal year.

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On February 14, 2011, the DOE issued draft two-year cohort default rates for the 2009 federal fiscal year. The draft rates are not final and may be subject to appeal and further upward or downward revisions before the DOE publishes final rates, which is expected to occur in September 2011. The draft 2009 rates ranged from 10.6% to 35.7%. Our Philadelphia, PA, Grand Prairie, TX, Melrose Park, IL, Denver, CO and Somerville, MA institutions had cohort default rates over 25%. We plan to appeal our 2009 draft rates. If the final 2009 fiscal year cohort default rate for Grand Prairie is 25% or greater, then the rate would be the institution's second consecutive fiscal year cohort default rate of 25% or greater. None of the other four institutions with a draft 2009 rate of 25% or greater had a cohort default rate of 25% or greater for the 2008 fiscal year.

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

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

## ATB Students

We have reduced the number of "ability to benefit", or ATB, students, enrolled at our institutions by raising the mandatory minimum test scores for these students as well as requiring that all ATB students attend a multi-day orientation program prior to commencing their chosen academic program. ATB students are non-GED and non-high school graduates who are allowed to enroll in post-secondary institutions by passing a Department of Education approved exam. ATB students are traditionally a higher risk population who complete their programs at a lower rate and default on their student loans at a higher rate than non-ATB students. As of March 31, 2011, approximately 11% of our students were classified as ATB students. We anticipate that this percentage will decrease in 2011 and beyond.

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

## Outlook

In addition to the 90/10 Rule, Cohort Default Rates and limits on the number of ATB students discussed above, changes to admissions advisor compensation policies, other changes promulgated by the DOE and the current economic slowdown have all led to deteriorating student enrollments since the second quarter of 2010. This resulted in a 38.8% decrease in student starts for the quarter ended March 31, 2011 as compared to March 31, 2010. We believe that the decline in student starts as compared to prior-year periods will continue into the second quarter of 2011 but will stabilize in the second half of the year. Our expectation is based on the fact that we have three new campuses opening in 2011 and are expanding the program offerings at our relocated Denver campus, which we expect to contribute to starts as well as more favorable year-over-year student start comparisons during the second half of the year. Although we know the number of high school students that have expressed an interest in attending our schools in

the second half of 2011, we cannot predict the number that will ultimately enroll. We have even more limited visibility with respect to future adult enrollments, as students typically enroll one month in advance of commencing classes. While we expect second half enrollments to stabilize, if they do not, our revenue could decline further, which could have a material adverse effect on our profitability.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. We have a credit agreement with a syndicate of banks. Our obligations under the credit agreement are secured by a lien on substantially all of our assets and our subsidiaries and any assets that we or our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock. Outstanding borrowings bear interest at the rate of 4.75% (as calculated in the credit agreement) as of March 31, 2011. As of March 31, 2011, we had no outstanding borrowings under our credit agreement.

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

We and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that we and the other defendants made false and misleading statements and failed to disclose material adverse facts about our business and prospects in violation of federal securities laws. The plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al., and Robert Lyathaud v. Lincoln Educational Services Corp., et al. On November 24, 2010, the Court consolidated the two actions under the caption In re Lincoln Educational Services Corp. Securities Litigation and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011. On April 15, 2011, defendants filed a motion to dismiss all of the claims asserted therein. Plaintiff's response to defendants' motion is due by June 14, 2011.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned Mike Schweertmann v. David F. Carney, et al. The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned Gregory and Karen Lehner v. Shaun E. McAlmont, et al. The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned Steven C. Lloyd and Paul Stone v. David F. Carney, et al. All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On March 3, 2011, the Court entered an order staying the Schweertmann action pending the resolution of defendants' motion to dismiss in In re Lincoln Educational Services Corp. Securities Litigation. On March 22, 2011, the Court entered an order staying

the Lehner action pending the resolution of defendants' motion to dismiss in In re Lincoln Educational Services Corp. Securities Litigation. Defendants in the Lloyd action have been served.

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

#### Item 1A. RISK FACTORS

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

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

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Item 6. EXHIBITS

EXHIBIT INDEX

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

| Exhibit Number | Description                                                                                                                                                                                                                                                                                  |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Amended and Restated Certificate of Incorporation of the Company (1).                                                                                                                                                                                                                        |
| 3.2            | Amended and Restated By-laws of the Company (2).                                                                                                                                                                                                                                             |
| 4.1            | Management Stockholders Agreement, dated as of January 1, 2002, by and among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Stockholders and other holders of options under the Management Stock Option Plan listed therein (1).                              |
| 4.2            | Assumption Agreement and First Amendment to Management Stockholders Agreement, dated as of December 20, 2007, by and among Lincoln Educational Services Corporation, Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Management Investors parties therein (3). |
| 4.3            | Registration Rights Agreement, dated as of June 27, 2005, between the Company and Back to School Acquisition, L.L.C. (2).                                                                                                                                                                    |
| 4.4            | Specimen Stock Certificate evidencing shares of common stock (1).                                                                                                                                                                                                                            |
| 10.1           | Credit Agreement, dated as of December 1, 2009, among the Company, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Bank of America, N.A., as Administrative Agent (5).                                                                   |
| 10.2           | Consulting Agreement, dated December 9, 2010, between the Company and David F. Carney (7).                                                                                                                                                                                                   |
| 10.3           | Employment Agreement, dated as of January 17, 2011, between the Company and Scott M. Shaw (8).                                                                                                                                                                                               |
| 10.4           | Employment Agreement, dated as of January 17, 2011, between the Company and Cesar Ribeiro (8).                                                                                                                                                                                               |
| 10.5           | Employment Agreement, dated as of January 17, 2011, between the Company and Shaun E. McAlmont (8).                                                                                                                                                                                           |
| 10.6           | Lincoln Educational Services Corporation 2005 Long Term Incentive Plan (1).                                                                                                                                                                                                                  |
| 10.7           | Lincoln Educational Services Corporation 2005 Non Employee Directors Restricted Stock Plan (1).                                                                                                                                                                                              |
| 10.8           | Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (1).                                                                                                                                                                                                                |
| 10.9           | Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002 (1).                                                                                                                                                                                                     |
| 10.10          | Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants (1).                                                                                                                                                               |

- 10.11 Form of Stock Option Agreement under our 2005 Long Term Incentive Plan (4).
- 10.12 Form of Restricted Stock Agreement under our 2005 Long Term Incentive Plan (4).
- 10.13 Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors (1).
- 10.14 Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, UGPE Partners Inc. and Merion Investment Partners, L.P (6).

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|               |                                                                                                                                                                                                                                                                               |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.15         | Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, Merion Investment Partners, L.P. and, for certain limited purposes only, UGPE Partners Inc (6). |
| 10.16         | Stock Purchase Agreement, dated as of December 15, 2009, among Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C (6).                                                                                                                            |
| <u>31.1</u> * | Certification of President & Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                               |
| <u>31.2</u> * | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                           |
| <u>32</u> *   | Certification of President & Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                            |

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

\* Filed herewith.

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SIGNATURES

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

LINCOLN EDUCATIONAL  
SERVICES CORPORATION

Date: May 6, 2011

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