CURTISS WRIGHT CORP
Form 4
August 13, 2008

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BENANTE MARTIN R

(Last) (First) (Middle)

C/O CURTISS-WRIGHT CORPORATION, 4 BECKER FARM ROAD, 3RD FLOOR

(Street)

ROSELAND, NJ 07068

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CURTISS WRIGHT CORP [CW]

3. Date of Earliest Transaction (Month/Day/Year)
08/11/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/11/2008		M (1)		27,126	A	$ 10.925 (2)	54,408.228	D	
Common Stock	08/11/2008		S		27,126	D	$ 53.0037 (3)	27,282.228	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Option to Purchase Common Stock	$ 10.925	08/11/2008		M			27,126	11/20/2002	11/20/2011	Common Stock	27,126

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BENANTE MARTIN R C/O CURTISS-WRIGHT CORPORATION 4 BECKER FARM ROAD, 3RD FLOOR ROSELAND, NJ 07068	X		Chairman & CEO	

Signatures

Paul J. Ferdenzi by Power of Attorney for Martin R. Benante	08/13/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares were acquired through the exercise of employee non-qualified stock option granted pursuant to a Company sponsored employee long term incentive plan.

(2) The purchase price is the exercise price of the employee stock option.

(3) Price reflects the weighted average sale price of all Curtiss-Wright shares sold by Mr. Benante on the New York Stock Exchange on August 11, 2008.

(4) Derivative security was granted pursuant to a Company sponsored employee long term incentive plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. family: 'Times New Roman'; font-weight: bold;">Faculty and Employees

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

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

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

Competition

The for-profit, post-secondary education industry is highly competitive and highly fragmented with no one provider controlling significant market share. Direct competition between career-oriented schools like ours and traditional four-year colleges or universities is limited. Thus, our main competitors are other for-profit, career-oriented schools, not-for-profit public, private schools, public and private two-year junior and community colleges, most of which are eligible to receive funding under the federal programs of student financial aid authorized by Title IV Programs. Competition is generally based on location, the type of programs offered, the quality of instruction, placement rates, reputation, recruiting and tuition rates. Public institutions are generally able to charge lower tuition than our school, due in part to government subsidies and other financial sources not available to for-profit schools. In addition, some of our other competitors have a more extensive network of schools and campuses than we do, which enables them to recruit students more efficiently from a wider geographic area. Nevertheless, we believe that we are able to compete effectively in our local markets because of the diversity of our program offerings, quality of instruction, the strength of our brands, our reputation and our graduates' success in securing employment after completing their program of study.

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

Environmental Matters

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

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Regulatory Environment

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

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

State Authorization

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

Our schools are subject to extensive, ongoing regulation by each of these states. State laws typically establish standards for instruction, curriculum, qualifications of faculty, location and nature of facilities and equipment, administrative procedures, marketing, recruiting, financial operations, student outcomes and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees, diplomas or certificates. For example, the governor of New York has proposed increased oversight of for-profit schools operating in New York, which would include our Queens campus, including, but not limited to, proposed regulations that, among other things, would limit the percentage of funding from taxpayers to 80 percent (which would be a stricter standard than required by the DOE) and require a school to spend at least 50 percent of its budget on instruction and learning. The implementation of these regulations could have a significant impact on our operations in New York and on the Company. In addition, legislation has been proposed in Maryland that would apply to certain for-profit schools operating in Maryland, which would include our Columbia campus, and that, among other things, would limit the percentage of revenue that an institution could receive from federal or state funds, or from loans or grants provided or guaranteed by the institution, in at least two of the institution’s three most recent fiscal years and would require the institution to provide an extensive list of disclosures to prospective students prior to enrollment, registration or payment. The implementation of this law or any related regulations could have a significant impact on our operations in Maryland and on the Company. We cannot predict the timing or ultimate scope of any final laws and regulations that New York, Maryland, or other states might issue on these or other topics in the future. Some states prescribe standards of financial responsibility that are different from, and in certain cases more stringent than, those prescribed by the DOE. Some states require schools to post a surety bond. We have posted surety bonds on behalf of our schools and education representatives with multiple states in a total amount of approximately $12.7 million.

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

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

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

Accreditation

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

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

Accrediting Commission of Career Schools and Colleges Reaccreditation Dates

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

1 Branch campus of main campus in Indianapolis, IN

2 Branch campus of main campus in New Britain, CT
3 Branch campus of main campus in Iselin, NJ
4 Campus undergoing re-accreditation. Campus has received written confirmation that it remains accredited pending consideration of its application for reaccreditation.

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

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

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

Nature of Federal and State Support for Post-Secondary Education

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

Other Financial Assistance Programs

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

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

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

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Regulation of Federal Student Financial Aid Programs

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

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

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

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

1 Provisionally certified.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Responsibility Standards.

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

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

· The equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;
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The primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Negotiated Rulemaking. On October 15, 2018, the DOE published a notice in the Federal Register announcing its intent to establish a negotiated rulemaking committee and three subcommittees to develop proposed regulations related to several matters, including, but not limited to, requirements for accrediting agencies in their oversight of member institutions and programs; criteria used by the DOE to recognize accrediting agencies; simplification of the DOE’s recognition and review of accrediting agencies; clarification of the core oversight responsibilities amongst accrediting agencies, states and the DOE to hold institutions accountable; clarification of the permissible arrangements between an institution of higher education and another organization to provide a portion of an educational program; roles and responsibilities of institutions and accrediting agencies in the teach-out process; regulatory changes required to ensure equitable treatment of brick-and-mortar and distance education programs; regulatory changes required to enable expansion of direct assessment programs, distance education, and competency-based education; regulatory changes required to clarify disclosure and other requirements of state authorization; protections to ensure that accreditors recognize and respect institutional mission and evaluate an institution's policies and educational programs based on that mission; simplification of state authorization requirements related to distance education; defining "regular and substantive interaction" as it relates to distance education; defining the term "credit hour"; defining the requirements related to the length of educational programs and entry level requirements for the occupation; addressing regulatory barriers in the DOE's institutional eligibility and general provision regulations; addressing direct assessment programs and competency-based education; and other matters. On January 7, 2019, the DOE released a set of draft proposed regulations for consideration and negotiation by the negotiated rulemaking committee and subcommittees. The draft proposed regulations also cover additional topics including, but not limited to, amendments to current regulations regarding the clock to credit hour conversion formula; the requirements for measuring the lengths of certain educational programs; the requirements for returning unearned Title IV funds received for students who withdraw before completing their educational programs; and the requirements for measuring a student's satisfactory academic progress. The proposed changes to the regulations remain subject to further change during the negotiated rulemaking process. The committee and subcommittees are in the process of meeting during the first three months of 2019. We cannot provide any assurances as to the timing, content or impact of any final regulations arising from the negotiated rulemaking process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1A. RISK FACTORS

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

RISKS RELATED TO OUR INDUSTRY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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- calculating a loan repayment rate for each proprietary institution under standards established by the regulations and requiring institutions to provide warnings to current and prospective students if the institution has a loan repayment rate below specified thresholds;
- prohibiting certain contractual provisions imposed by or on behalf of schools on students regarding arbitration, dispute resolution, and participation in class actions; and
- expanding the existing definition of misrepresentations that could result in grounds for discharge of student loans and in liabilities and sanctions against the institution, including, without limitation, potential loss of Title IV eligibility.

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

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

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

On October 15, 2018, the DOE published a notice in the Federal Register announcing its intent to establish a negotiated rulemaking committee and three subcommittees to develop proposed regulations related to several matters. See "Regulatory Environment – Negotiated Rulemaking.". On January 7, 2019, the DOE released a set of draft proposed regulations for consideration and negotiation by the negotiated rulemaking committee and subcommittees. The draft proposed regulations also cover additional topics including, but not limited to, amendments to current regulations regarding the clock to credit hour conversion formula for measuring the lengths of certain educational programs, the return of unearned Title IV funds received for students who withdraw before completing their educational programs, and the measurement of student academic progress. The proposed changes to the regulations remain subject to further change during the negotiated rulemaking process and we continue to monitor and review those proposals as they evolve. The committee and subcommittees are scheduled to meet during the first three months of 2019. At this time, we cannot provide any assurances as to the timing, content or impact of any final regulations arising from this planned negotiated rulemaking process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The U.S. Consumer Financial Protection Bureau ("CFPB"), under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has exercised supervisory authority over private education loan providers. The CFPB has been active in conducting investigations into the private student loan market and issuing several reports with findings that are critical of the private student loan market. The CFPB has initiated investigations into the lending practices of other institutions in the for-profit education sector. The CFPB has issued procedures for further examination of private education loans and published requests for information regarding repayment plans and regarding arrangements between schools and financial institutions. On August 31, 2017, the DOE informed CFPB that it was terminating an information sharing Memorandum of Understanding between the two agencies, in part because the CFPB was acting on student complaints rather than referring them to the DOE for action. The DOE asserted full oversight responsibility for federal student loans, but not with respect to private loans. In late November 2017, new leadership at the CFPB began taking steps to end or pause certain investigations and to restrict or reconsider some its enforcement activities. However, it is unclear the extent to which the CFPB will continue to exercise oversight authority over private education loan providers.

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

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RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

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

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

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

· Student dissatisfaction with our programs and services;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to income tax requirements in various jurisdictions in the United States. Legislation or other changes in the tax laws of the jurisdictions where we do business could increase our liability and adversely affect our after-tax profitability. In addition, we are subject to examination of our income tax returns by the Internal Revenue Service and the taxing authorities of various states. We regularly assess the likelihood of adverse outcomes resulting from tax examinations to determine the adequacy of our provision for income taxes and we have accrued tax and related interest for potential adjustments to tax liabilities for prior years. However, there can be no assurance that the outcomes from these tax examinations will not have a material effect, either positive or negative, on our business, financial conditions and results of operation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

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

Market for our Common Stock

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

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

Dividend Policy

The Company has not declared or paid any cash dividends on its common stock since the Company's Board of Directors discontinued our quarterly cash dividend program in February 2015. The Company has no current intentions to resume the payment of cash dividends in the foreseeable future.

Share Repurchases

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

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Stock Performance Graph

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

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

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

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Equity Compensation Plan Information

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

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

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ITEM 6. SELECTED FINANCIAL DATA

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

	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
Statement of Operations Data, Year Ended December 31:					
Revenue	$263,200	$261,853	$285,559	$306,102	$325,022
Cost and expenses:					
Educational services and facilities	125,373	129,413	144,426	151,647	164,352
Selling, general and administrative	141,244	138,779	148,447	151,797	168,441
Loss (gain) on sale of assets	537	(1,623)	233	1,738	(58)
Impairment of goodwill and long-lived assets	-	-	21,367	216	40,836
Total costs and expenses	267,154	266,569	314,473	305,398	373,571
Operating (loss) income	(3,954)	(4,716)	(28,914)	704	(48,549)
Other:					
Interest income	31	56	155	52	153
Interest expense	(2,422)	(7,098)	(6,131)	(8,015)	(5,613)
Other income	-	-	6,786	4,151	297
Loss from continuing operations before income taxes	(6,345)	(11,758)	(28,104)	(3,108)	(53,712)
Provision (benefit) for income taxes	200	(274)	200	242	(4,225)
Loss from continuing operations	(6,545)	(11,484)	(28,304)	(3,350)	(49,487)
Loss from discontinued operations, net of income taxes	-	-	-	-	(6,646)
Net loss	$(6,545)	$(11,484)	$(28,304)	$(3,350)	$(56,133)
Basic					
Loss per share from continuing operations	$(0.27)	$(0.48)	$(1.21)	$(0.14)	$(2.17)
Loss per share from discontinued operations	-	-	-	-	(0.29)
Net loss per share	$(0.27)	$(0.48)	$(1.21)	$(0.14)	$(2.46)
Diluted					
Loss per share from continuing operations	$(0.27)	$(0.48)	$(1.21)	$(0.14)	$(2.17)
Loss per share from discontinued operations	-	-	-	-	(0.29)
Net loss per share	$(0.27)	$(0.48)	$(1.21)	$(0.14)	$(2.46)
Weighted average number of common shares outstanding:					
Basic	24,423	23,906	23,453	23,167	22,814
Diluted	24,423	23,906	23,453	23,167	22,814
Other Data:					
Capital expenditures	$4,697	$4,755	$3,596	$2,218	$7,472
Depreciation and amortization from continuing operations	8,421	8,702	11,066	14,506	19,201
Number of campuses	22	23	28	31	31
Average student population from continuing operations	10,591	10,772	11,864	12,981	14,010
Cash dividend declared per common share	$-	$-	$-	$-	$0.18

Balance Sheet Data, At December 31:					
Cash, cash equivalents and restricted cash	$45,946	$54,554	$47,715	$61,041	$42,299
Working (deficit) capital (1)	(7,470)	(2,766)	(1,733)	33,818	29,585
Total assets	146,038	155,213	163,207	210,279	213,707
Total debt (2)	48,769	52,593	41,957	58,224	65,181
Total stockholders' equity	39,866	45,813	54,926	80,997	83,010

All amounts have been restated to give effect to the HOPS segments which has been reclassified to continuing operations in 2016, 2015 and 2014.

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

(2) Total debt consists of long-term debt including current portion, capital leases, auto loans and a finance obligation of $9.7 million for each of the years in the two-year period ended December 31, 2015 incurred in connection with a sale-leaseback transaction.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the “Selected Financial Data,” “Forward-Looking Statements” and the consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that are based on management’s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under “Risk Factors” and “Forward-Looking Statements” and elsewhere in this Annual Report on Form 10-K.

GENERAL

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

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

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

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

As of December 31, 2018, we had 10,525 students enrolled at 22 campuses.

Our campuses, a majority of which serve major metropolitan markets, are located throughout the United States. Five of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas. All of our schools are either nationally or regionally accredited and are eligible to participate in federal financial aid programs.

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Our revenues consist primarily of student tuition and fees derived from the programs we offer. Our revenues are reduced by scholarships granted to our students. We recognize revenues from tuition and one-time fees, such as application fees, ratably over the length of a program, including internships or externships that take place prior to graduation. We also earn revenues from our bookstores, dormitories, cafeterias and contract training services. These non-tuition revenues are recognized upon delivery of goods or as services are performed and represent less than 10% of our revenues.

Our revenues are directly dependent on the average number of students enrolled in our schools and the courses in which they are enrolled. Our average enrollment is impacted by the number of new students starting, re-entering, graduating and withdrawing from our schools. In addition, our diploma/certificate programs range from 19 to 136 weeks, our associate's degree programs range from 64 to 98 weeks, and students attend classes for different amounts of time per week depending on the school and program in which they are enrolled. Because we start new students every month, our total student population changes monthly. The number of students enrolling or re-entering our programs each month is driven by the demand for our programs, the effectiveness of our marketing and advertising, the availability of financial aid and other sources of funding, the number of recent high school graduates, the job market and seasonality. Our retention and graduation rates are influenced by the quality and commitment of our teachers and student services personnel, the effectiveness of our programs, the placement rate and success of our graduates and the availability of financial aid. Although similar courses have comparable tuition rates, the tuition rates vary among our numerous programs.

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 78% of our revenue on a cash basis while the remainder is primarily derived from state grants and cash payments made by students during both 2018 and 2017. The Higher Education Act of 1965, as amended (the "HEA") requires institutions to use the cash basis of accounting when determining its compliance with the 90/10 rule.

We extend credit for tuition and fees to many of our students that attend our campuses. Our credit risk is mitigated through the students' participation in federally funded financial aid programs unless students withdraw prior to the receipt by us of Title IV Program funds for those students. Under Title IV Programs, the government funds a certain portion of a student's tuition, with the remainder, referred to as "the gap," financed by the students themselves under private party loans, including credit extended by us. The gap amount has continued to increase over the last several years as we have raised tuition on average for the last several years by 2-3% per year and restructured certain programs to reduce the amount of financial aid available to students, while funds received from Title IV Programs increased at lower rates.

The additional financing that we are providing to students may expose us to greater credit risk and can impact our liquidity. However, we believe that these risks are somewhat mitigated due to the following:

- Our internal financing is provided to students only after all other funding resources have been exhausted; thus, by the time this funding is available, students have completed approximately two-thirds of their curriculum and are more likely to graduate;
- Funding for students who interrupt their education is typically covered by Title IV funds as long as they have been properly packaged for financial aid; and
- Creditworthy criteria to demonstrate a student's ability to pay.

The operating expenses associated with an existing school do not increase or decrease proportionally as the number of students enrolled at the school increases or decreases. We categorize our operating expenses as:

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Educational services and facilities. Major components of educational services and facilities expenses include faculty compensation and benefits, expenses of books and tools, facility rent, maintenance, utilities, depreciation and amortization of property and equipment used in the provision of education services and other costs directly associated with teaching our programs excluding student services which is included in selling, general and administrative expenses.

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

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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. 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.

Prior to adoption of ASU 2014-09

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 as the student proceeds through the program, which is the period of time from a student’s start date through his or her graduation date (including internships or externships, if any, occurring prior to graduation), and we complete the performance of teaching the student entitling us to the revenue. Other revenues, such as tool sales and contract training revenues, are recognized as goods are delivered or training completed. 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.

We evaluate whether collectability of revenue is reasonably assured prior to the student commencing a program by attending class and reassess collectability of tuition and fees when a student withdraws from a course. We calculate the amount to be returned under Title IV and its stated refund policy to determine eligible charges and, if there is a balance due from the student after this calculation, we expect payment from the student. We have a process to pursue uncollected accounts whereby, based upon the student’s financial means and ability to pay, a payment plan is established with the student to ensure that collectability is reasonable. We continuously monitor our historical collections to identify potential trends that may impact our determination that collectability of receivables for withdrawn students is realizable. 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. Generally, the amount to be refunded to a student is calculated based upon the period of time the student has attended classes and the amount of tuition and fees paid by the student as of his or her withdrawal date. These refunds typically reduce deferred tuition revenue and cash on our consolidated balance sheets as we generally do not recognize tuition revenue in our consolidated statements of income (loss) until the related refund provisions have lapsed. Based on the application of our refund policies, we may be entitled to incremental revenue on the day the student withdraws from one of our schools. We record revenue for students who withdraw from one of our schools when payment is received because collectability on an individual student basis is not reasonably assured.

After adoption of ASU 2014-09

On January 1, 2018, we adopted the new standard on revenue recognition, ASU 2014-09, using the modified retrospective approach of ASU 2016-10. The adoption of the guidance in ASU 2014-09 as amended by ASU 2016-10 did not have a material impact on the measurement or recognition of revenue in any prior or current reporting periods and there was no adjustment to retained earnings. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to students in an amount that reflects the consideration to which the company expects to be entitled in exchange for such goods or services.

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

Allowance for uncollectible accounts. Based upon experience and judgment, we establish an allowance for uncollectible accounts with respect to tuition receivables. We use an internal group of collectors in our collection efforts. In establishing our allowance for uncollectible accounts, we consider, among other things, current and expected economic conditions, a student's status (in-school or out-of-school), whether or not a student is currently making payments, and overall collection history. Changes in trends in any of these areas may impact the allowance for uncollectible accounts. The receivables balances of withdrawn students with delinquent obligations are reserved for based on our collection history. Although we believe that our reserves are adequate, if the financial condition of our students deteriorates, resulting in an impairment of their ability to make payments, 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 years ended December 31, 2018, 2017 and 2016 was 6.7%, 5.2% and 5.1%, 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 years ended December 31, 2018, 2017 and 2016 would have resulted in an increase in bad debt expense of $2.6 million, $2.6 million and $2.9 million, respectively.

We do not believe that there is any direct correlation between tuition increases, the credit we extend to students and our loan commitments. Our loan commitments to our students are made on a student-by-student basis and are predominantly a function of the specific student's financial condition. We only extend credit to the extent there is a financing gap between the tuition and fees 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 include whether they are dependent or independent students, Pell grants awarded, Federal Direct loans awarded, Plus loans awarded to parents and the student's personal resources 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 averaged 2-3% 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.

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

Goodwill. We 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 December 31, 2018, goodwill was approximately $14.5 million, or 10.0%, of our total assets, which was flat from approximately $14.5 million, or 9.4%, of our total assets at December 31, 2017.

When we test goodwill balances for impairment, we estimate the fair value of each of our reporting units based on projected future operating results and cash flows, market assumptions and/or comparative market multiple methods. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, relative market share, new student interest, student retention, future expansion or contraction expectations, amount and timing of future cash flows and the discount rate applied to the cash flows. Projected future operating results and cash flows used for valuation purposes do reflect improvements relative to recent historical periods with respect to, among other things, modest revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions.

At December 31, 2018 and December 31, 2017, we conducted our annual test for goodwill impairment and determined we did not have an impairment. At December 31, 2016, we conducted our annual test for goodwill impairment and determined we had an impairment of $9.9 million.

Stock-based compensation. We currently account for stock-based employee compensation arrangements by using the Black-Scholes valuation model and utilize straight-line amortization of compensation expense over the requisite service period of the grant. We make an estimate of expected forfeitures at the time options are granted.

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We measure the value of service and performance-based restricted stock on the fair value of a share of common stock on the date of the grant. We amortize the fair value of service-based restricted stock utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

We amortize the fair value of the performance-based restricted stock based on determination of the probable outcome of the performance condition. If the performance condition is expected to be met, then we amortize the fair value of the number of shares expected to vest utilizing the straight-line basis over the requisite performance period of the grant. However, if the associated performance condition is not expected to be met, then we do not recognize the stock-based compensation expense.

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

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

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2018 and 2017, we did not record any interest and penalties expense associated with uncertain tax positions.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation known as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act establishes new tax laws that took effect in 2018, including, but not limited to (1) reduction of the U.S. federal corporate tax rate from a maximum of 35% to 21%; (2) elimination of the corporate alternative minimum tax (AMT); (3) a new limitation on deductible interest expense; (4) the repeal of the domestic production activity deduction; (5) limitations on the deductibility of certain executive compensation; and (6) limitation on net operating losses (NOLs) generated after December 31, 2017, to 80% of taxable income. In addition, certain changes were made to the bonus depreciation rules that impacted fiscal year 2017.

In accordance with SAB 118, we completed our analysis of the Tax Act resulting in no material adjustments from the provisional amounts recorded during the prior year. The Tax Act did not have a material impact on our financial statements because we are under a full valuation allowance.

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Results of Continuing Operations for the Three Years Ended December 31, 2018

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

	Year Ended December 31,		
	2018	2017	2016
Revenue	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Educational services and facilities	47.6 %	49.4 %	50.6 %
Selling, general and administrative	53.7 %	53.0 %	52.0 %
(Gain) loss on sale of assets	0.2 %	-0.6 %	0.1 %
Impairment of goodwill and long-lived assets	0.0 %	0.0 %	7.5 %
Total costs and expenses	101.5 %	101.8 %	110.2 %
Operating (loss) income	-1.5 %	-1.8 %	-10.2 %
Interest expense, net	-0.9 %	-2.7 %	-2.0 %
Other income	0.0 %	0.0 %	2.4 %
Loss from operations before income taxes	-2.4 %	-4.5 %	-9.8 %
Provision (benefit) for income taxes	0.1 %	-0.1 %	0.1 %
Net loss	-2.5 %	-4.4 %	-9.9 %

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Consolidated Results of Operations

Revenue. Revenue increased $1.3 million to $263.2 million for the year ended December 31, 2018 from $261.9 million in the prior year comparable period. The revenue increase was a result of five consecutive quarters of start growth which drove a 9.5% and 1.2% increase in average population in both our Healthcare and Other Professions segment and Transportation and Skilled Trades segment. Excluding our Transitional segment (which represents campuses that have closed) which had revenue of $5.8 million and $16.9 million during the years ended December 31, 2018 and 2017, respectively, revenue would have increased by $12.4 million, or 5.1%, year over year. The increase in revenue was despite student population at the beginning of the year being down 77 students compared to the prior year.

Total student starts increased 5.6% for the year ended December 31, 2018 as compared to the prior year comparable period. Excluding the Transitional segment, student starts would have increased 7.7% year over year. We continue to attribute this growth to our investments in marketing, enhanced high school programs and improved admissions process driving more consistency from lead to start.

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

Educational services and facilities expense. Our educational services and facilities expense decreased $4.0 million, or 3.1%, to $125.4 million for the year ended December 31, 2018 from $129.4 million in the prior year comparable period. The expense reductions were primarily due to the Transitional segment, which accounted for $7.6 million in cost savings, partially offset by $2.1 million in additional books and tools expense and $1.2 million in additional instructional expenses. The increase in books and tools expense and instructional expense was a direct correlation between providing laptops for a growing number of program offerings and an increased student population year over year.

Educational services and facilities expenses, as a percentage of revenue, decreased to 47.6% for the year ended December 31, 2018 from 49.4% in the prior year comparable period.

Selling, general and administrative expense. Our selling general and administrative expense increased $2.5 million, or 1.8%, to $141.2 million for the year ended December 31, 2018 from $138.8 million in the prior year comparable period. Increased costs were driven by $3.8 million of additional bad debt expense and $2.9 million of marketing investments. Partially offsetting the increased expenses were cost savings of $4.4 million derived from the Transitional segment.

Bad debt expense has increased mainly due to larger accounts receivable balances driven by higher population and thus higher revenue of $12.4 million, or 5.1%, excluding the Transitional segment. Also, we are seeing more students graduating with accounts receivable balances as a result of our institutional loan program which began offering the option to defer all payments post-graduation. This change was effective approximately two years ago. Furthermore, there has been a shift in our program mix during the year from longer duration programs to shorter more condensed programs. The shifts in program mix have impacted disbursement of Title IV funds and, as a result, has contributed to a higher accounts receivable balance year over year.

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Marketing investments during the year ended December 31, 2018 were approximately $2.9 million higher than the prior year comparable period. While marketing investments have increased during 2018 as expected, the cost to obtain prospective students has remained essentially flat when compared to the prior year. Marketing dollars are providing a return on investment and are expected to yield start growth over the next several quarters.

Selling general and administrative expenses, as a percentage of revenue, increased to 53.7% for the year ended December 31, 2018 from 53% in the prior year comparable period.

Bad debt expense as a percentage of revenue was 6.7% for the year ended December 31, 2018, compared to 5.2% for the same period in 2017.

As of December 31, 2018, we had total outstanding loan commitments to our students of $63.1 million, as compared to $51.9 million at December 31, 2017. The increase was due to higher student population and thus an increased number of students electing to take our institutional loans to finance their education costs that are not covered by a third party or financial aid. Despite the growth in student population, the overall percentage of starts with institutional loans in 2018 remained relatively consistent with the prior year. Our institutional loans constitute loans of last resort, available to assist our most financially challenged students.

(Loss)/gain on sale of fixed assets. Loss on sale of assets increased to $0.5 million for the year ended December 31, 2018, from a gain on sale of asset of $1.6 million in the prior year comparable period. The $2.1 million increase was primarily driven by a $0.4 million loss on the sale of the Mangonia Park, Florida property on August 23, 2018 and a $1.5 million gain in the prior year resulting from the sale of the West Palm Beach, Florida property on August 14, 2017.

Net interest expense. Net interest expense for the year ended December 31, 2018 decreased by $4.7 million, or 66%, to $2.4 million from $7.0 million in the prior year comparable period. The decrease was the result of the termination of our previous term loan which had significantly higher interest rates and the related fees and expenses associated with its early termination, which occurred on March 31, 2017. Additional interest expense was also incurred in the prior year in relation to an $8.0 million bridge loan secured by our West Palm Beach, Florida property, which was repaid in August 2017.

Income taxes. Our provision for income taxes was $0.2 million, or 3.2% of pretax loss, for the year ended December 31, 2018, compared to a benefit for income taxes of $0.3 million, or 2.3% of pretax loss, in the prior year comparable period.

No federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance. Income tax expense resulted from various minimal state tax expenses.

In accordance with SAB 118, we completed our analysis of the Tax Act resulting in no material adjustments from the provisional amounts recorded during the prior year. The Tax Act did not have a material impact on our financial statements because we are under a full valuation allowance.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Consolidated Results of Operations

Revenue. Revenue decreased by $23.7 million, or 8.3%, to $261.9 million for the year ended December 31, 2017 from $285.6 million for the year ended December 31, 2016. The decrease in revenue is primarily attributable to the campuses in our Transitional segment, which have closed during 2017. This segment accounted for approximately $23.5 million, or 99.2% of the revenue decline.

Total student starts decreased by 10.8% to approximately 11,800 from 13,200 for the year ended December 31, 2017 as compared to the prior year comparable period. The suspension of new student starts for the Transitional segment accounted for approximately 80% of the decline. The Transportation and Skilled Trades segment starts were slightly down 1.6% and the HOPS segment starts increased by 3.7% for the year ended December 31, 2017 as compared to the prior year comparable period.

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

Educational services and facilities expense. Our educational services and facilities expense decreased by $15 million, or 10.4%, to $129.4 million for the year ended December 31, 2017 from $144.4 million in the prior year comparable period. The decrease is mainly due to the Transitional segment, which accounted for approximately $14 million, or 93.4% of the decrease. The remainder of the $1 million decrease was primarily due to a decrease in facilities expenses slightly offset by increased instructional expenses. Facilities expense decreased due to a decline in depreciation expense of approximately $1.5 million due to fully depreciated assets. Partially, offsetting the decreases are $0.5 million in increased books and tools costs resulting from the addition of laptops for an increasing number of program offerings in the HOPS segment. Educational services and facilities expenses, as a percentage of revenue, decreased to 49.4% for the year ended December 31, 2017 from 50.6% in the prior year comparable period.

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Selling, general and administrative expense. Our selling, general and administrative expense decreased by $9.7 million, or 6.5%, to $138.8 million for the year ended December 31, 2017 from $148.5 million in the prior year comparable period. The decrease was primarily due to the Transitional segment, which accounted for approximately $13.4 million in cost reductions. Partially offsetting the cost reductions are $2.8 million in additional sales and marketing expense and $1 million in increased administrative expense.

The $2.8 million increase in sales and marketing expense was the result of strategic marketing spending in an effort to expand our reach in the adult market. The additional spending resulted in an increase in adult starts year over year.

Administrative expense increased primarily due to a $1.2 million increase in bad debt expense and $1.6 million in closed school expenses, offset by $1.3 million in reduced salaries and benefits expense.

The increase in closed school expenses related to the Hartford, Connecticut campus, which closed on December 31, 2016 and was included in the Transitional segment in 2016, but has an apartment lease for student dorms which ends in September 2019.

Bad debt expense as a percentage of revenue was 5.2% for the year ended December 31, 2017, compared to 5.1% for the same period in 2016. The increase in bad debt expense was the result of higher student receivable accounts, primarily driven by lower scholarship recognition and a higher number of institutional loans. During 2017, we made modifications to the institutional loan program which expanded the program's eligibility base and lessened the student's affordability challenge. In addition, we experienced higher account write-offs and timing of Title IV funds receipts, which contributed to the increase in bad debt expense.

As of December 31, 2017, we had total outstanding loan commitments to our students of $51.9 million, as compared to $40.0 million at December 31, 2016. The increase was due to a higher number of students packaged with institutional loans as a result of 2017 modifications to the program, which expanded the eligibility base and lessened the affordability obstacle.

Gain on sale of fixed assets. Gain on sale of fixed assets increased by $1.8 million primarily due to the sale of two real properties located in West Palm Beach, Florida. The sale occurred on August 14, 2017 and resulted in a gain of $1.5 million.

Impairment of goodwill and long-lived assets. We tested our goodwill and long-lived assets and determined that as of December 31, 2017 no impairments existed. The fair value of the Company's reporting units were determined using Level 3 inputs included in its multiple of earnings and discounted cash flow approach. At December 31, 2016, we tested our goodwill and long-lived assets and determined that there was sufficient evidence to conclude that an impairment existed, which resulted in a pre-tax, non-cash charge of $21.4 million.

Net interest expense. For the year ended December 31, 2017, our net interest expense increased by $1.1 million. The increase was mainly attributable to a $2.2 million non-cash write-off of previously capitalized deferred financing fees; and a $1.8 million early termination fee. These costs were incurred at March 31, 2017 when the Company entered into a revolving credit facility with Sterling National Bank. Partially offsetting these increases were reductions in interest expense resulting from lower debt outstanding in combination with more favorable terms under the current credit facility compared to the terms of a prior term loan facility provided to the Company by a former lender.

Income taxes. Our benefit for income taxes was $0.3 million, or 2.3% of pretax loss, for the year ended December 31, 2017, compared to a provision for income taxes of $0.2 million, or 0.7% of pretax loss, in the prior year comparable period.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Cuts and Jobs Act, among other things, eliminated the corporate alternative minimum tax (the "AMT") and changed how existing AMT credits can be realized either to offset regular tax liability or to be refunded. As a result of this change, the Company released the valuation allowance against AMT credits deferred tax asset and recorded a deferred tax provision benefit of $0.4 million. Offsetting this benefit was $0.1 million of income tax expense from various minimal state tax expenses.

At December 31, 2017, we had not completed our analysis of the tax effects of enactment of the Tax Act; however, we made a reasonable estimate of the effects of the Tax Act's change in the federal rate and revalued our deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the new 21% federal corporate tax rate plus applicable state tax rate. Based on our initial analysis of the impact, we recorded a decrease related to deferred tax assets of $17.7 million. The expense is offset with a corresponding release of valuation allowance.

No other federal or state income tax benefit was recognized for the fiscal year 2017 loss due to the recognition of a full valuation allowance.

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Segment Results of Operations

The for-profit education industry has been impacted by numerous regulatory changes, a changing economy and an onslaught of negative media attention. As a result of these challenges, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over ten locations and exited its online business. In 2017, the Company completed the teach-out of its Center City Philadelphia, Pennsylvania; Northeast Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools. All of these schools were previously included in our HOPS segment and as of December 31, 2017, they have all been closed.

On August 20, 2018, the Company decided to teach-out the LCNE campus at Southington, Connecticut. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of December 31, 2018. The Company completed the teach-out and exited the LCNE campus on December 31, 2018.

In the past, we offered any combination of programs at any campus. We have shifted our focus to program offerings that create greater differentiation among campuses and promote attainment of excellence to attract more students and gain market share. Also, strategically, we began offering continuing education training to select employers who hire our graduates and this is best achieved at campuses focused on the applicable profession.

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

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

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

Transitional – The Transitional segment refers to campuses that are being taught-out and closed and operations that are being phased out. The schools in the Transitional segment employ a gradual teach-out process that enables the schools to continue to operate to allow their current students to complete their course of study. These schools are no longer enrolling new students.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus's geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. Campuses in the Transitional segment have been subject to this process and have been strategically identified for closure.

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

For all prior periods presented, the Company reclassified its Marietta, Georgia campus from the HOPS segment to the Transportation and Skilled Trades segment. This reclassification occurred to address how the Company evaluates performance and allocates resources and was approved by the Company’s Board of Directors.

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The following table present results for our three reportable segments for the years ended December 31, 2018 and 2017:

	Twelve Months Ended December 31, 2018	2017	% Change
Revenue:			
Transportation and Skilled Trades	$ 185,263	$ 181,328	2.2 %
Healthcare and Other Professions	72,135	63,641	13.3 %
Transitional	5,802	16,884	-65.6 %
Total	$ 263,200	$ 261,853	0.5 %
Operating Income (Loss):			
Transportation and Skilled Trades	$ 17,661	$ 17,795	-0.8 %
Healthcare and Other Professions	6,469	3,937	64.3 %
Transitional	(5,994)	(6,926)	13.5 %
Corporate	(22,090)	(19,522)	-13.2 %
Total	$ (3,954)	$ (4,716)	16.2 %
Starts:			
Transportation and Skilled Trades	8,294	7,763	6.8 %
Healthcare and Other Professions	4,023	3,673	9.5 %
Transitional	140	363	-61.4 %
Total	12,457	11,799	5.6 %
Average Population:			
Transportation and Skilled Trades	7,042	6,961	1.2 %
Healthcare and Other Professions	3,312	3,024	9.5 %
Transitional	237	787	-69.9 %
Total	10,591	10,772	-1.7 %
End of Period Population:			
Transportation and Skilled Trades	6,988	6,626	5.5 %
Healthcare and Other Professions	3,537	3,136	12.8 %
Transitional	-	397	-100.0 %
Total	10,525	10,159	3.6 %

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Transportation and Skilled Trades

Student start results increased 6.8% to 8,294 for the year ended December 31, 2018 from 7,763 in the prior year comparable period.

Operating income remained essentially flat at $17.7 million and $17.8 million for the years ended December 31, 2018 and 2017 respectively. Activity during the year was mainly driven by the following factors:

- Revenue increased by $3.9 million to $185.3 million for the year ended December 31, 2018, as compared to $181.3 million in the prior year comparable period. The increase in revenue was primarily driven by five consecutive quarters of start growth, most notably a 6.8% increase in student starts, during the year ended December 31, 2018 in addition to a 1% increase in average revenue per student primarily due to tuition rate increases partially offset by changes in program mix from longer to shorter programs. The increase in revenue was despite starting the year with 278 fewer students than that of the prior year.

- Educational services and facilities expense increased by $1.0 million, or 1.1%, to $85.4 million for the year ended December 31, 2018 from $84.4 million in the prior year comparable period. This increase was driven by $1.2 million in additional books and tools expense partially. Increased books and tools expense was a collaboration between a growing number of program offerings requiring laptops in addition to a growing student population. Reductions in facilities expense was a result of fully depreciated assets.

- Selling general and administrative expense increased by $3.0 million, primarily resulting from a $2.4 million increase in bad debt expense in addition to a $1.4 million increase in marketing investment as detailed in the consolidated results of operations. Partially offsetting the costs were savings of $1.2 million in salaries and benefits expense resulting from operational efficiencies.

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Healthcare and Other Professions

Student start results increased 9.5% to 4,023 for the year ended December 31, 2018 from 3,673 in the prior year comparable period.

Operating income increased 64.3% to $6.5 million for the year ended December 31, 2018 from $3.9 million in the prior year comparable period. The $2.5 million change was mainly driven by the following factors:

- Revenue increased $8.5 million, or 13.3%, to $72.1 million for the year ended December 31, 2018 as compared to $63.6 million in the prior year comparable period. The increase in revenue was driven by a 9.5% increase in average student population in combination with a 3.4% increase in average revenue per student resulting from tuition increases.
- Educational services and facilities expense increased by $2.6 million to $34.7 million for the year ended December 31, 2018 from $32.1 million in the prior year comparable period. This increase was primarily driven by increased instructional expense and books and tools expense resulting from a 9.5% increase in average student population.
- Selling general and administrative expenses increased by $3.4 million, or 12.2%, to $30.9 million for the year ended December 31, 2018 as compared to $27.6 million in the prior year comparable period. This increase was primarily driven by additional bad debt expense and marketing expense as detailed in the consolidated results of operations.

Transitional

The following table lists the schools that are categorized in the Transitional segment which are all closed as of December 31, 2018:

Campus	Date Closed
Southington, Connecticut	December 31, 2018
Northeast Philadelphia, Pennsylvania	September 30, 2017
Center City Philadelphia, Pennsylvania	August 31, 2017
West Palm Beach, Florida	September 30, 2017
Brockton, Massachusetts	December 31, 2017
Lowell, Massachusetts	December 31, 2017

Revenue for the campuses in the above table have been classified in the Transitional segment for comparability for the years ended December 31, 2018 and 2017. Revenue was $5.8 million and $16.9 million for the years ended December 31, 2018 and 2017, respectively. The decrease in revenue was due to one campus classified in the Transitional segment compared to five campuses classified in the segment in the prior year. The Transitional segment during the year ended December 31, 2018 and 2017 includes the Lincoln College of New England campus at Southington, Connecticut.

Operating loss was $6.0 million and $6.9 million for the years ended December 31, 2018 and 2017, respectively.

Corporate and Other

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses were $22.1 million for the year ended December 31, 2018 as compared to $19.5 million in the prior year comparable period. The $2.6 million increase was primarily driven by a $0.4 million loss on the sale of property in 2018 and a $1.5 million gain in the prior year resulting from the sale of property in 2017.

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The following table presents results for our three reportable segments for the years ended December 31, 2017 and 2016.

	Twelve Months Ended December 31,		
	2017	2016	% Change
Revenue:			
Transportation and Skilled Trades	$ 181,328	$ 182,276	-0.5 %
Healthcare and Other Professions	63,641	62,870	1.2 %
Transitional	16,884	40,413	-58.2 %
Total	$ 261,853	$ 285,559	-8.3 %
Operating Income (Loss):			
Transportation and Skilled Trades	$ 17,795	$ 21,578	-17.5 %
Healthcare and Other Professions	3,937	(9,392)	-141.9 %
Transitional	(6,926)	(16,995)	59.2 %
Corporate	(19,522)	(24,105)	19.0 %
Total	$ (4,716)	$ (28,914)	83.7 %
Starts:			
Transportation and Skilled Trades	7,763	7,892	-1.6 %
Healthcare and Other Professions	3,673	3,543	3.7 %
Transitional	363	1,791	-79.7 %
Total	11,799	13,226	-10.8 %
Average Population:			
Transportation and Skilled Trades	6,961	7,072	-1.6 %
Healthcare and Other Professions	3,024	2,939	2.9 %
Transitional	787	1,853	-57.5 %
Total	10,772	11,864	-9.2 %
End of Period Population:			
Transportation and Skilled Trades	6,626	6,904	-4.0 %
Healthcare and Other Professions	3,136	2,935	6.8 %
Transitional	397	1,396	-71.6 %
Total	10,159	11,235	-9.6 %

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Transportation and Skilled Trades

Student start results decreased by 1.6% to 7,763 for the year ended December 31, 2017 from 7,892 in the prior year comparable period.

Increased marketing spend targeted at the adult demographic has resulted in slightly higher adult start rates for the year ended December 31, 2017 when compared to the prior year comparable period. However, as previously reported for the second quarter of 2017, there was a decline in starts as a result of a lower than expected high school start rate. Graduating high school students make up approximately 31% of the segment's starts. In an effort to increase high school enrollments, the Company has made various changes to its processes and organizational structure. These shortfalls in the high school start rate have offset the favorable start rates for the adult start demographic.

Operating income decreased by $3.8 million, or 17.5%, to $17.8 million for the year ended December 31, 2017 from $21.6 million in the prior year comparable period mainly driven by the following factors:

- Revenue decreased to $181.3 million for the year ended December 31, 2017, as compared to $182.3 million in the comparable prior year period. The slight decrease in revenue was primarily driven by a 1.6% decrease in average student population, partially offset by a 1.1% increase in average revenue per student.
- Educational services and facilities expense decreased by $1.2 million, or 1.4%, mainly due to reductions in depreciation expense attributable to assets that have fully depreciated.
- Selling, general and administrative expense increased by $4.2 million, primarily resulting from $1.4 million of additional bad debt expense resulting from higher student accounts, higher account write-off's, and timing of Title IV Program receipts and a $1.5 million increase in marketing expense. The increase in marketing expense is part of a strategic effort to increase student population and increase brand awareness. As mentioned previously, the increased marketing spend targeted at the adult demographic has resulted in slightly higher starts year over year. This progress has been offset by lower than expected high school starts.

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Healthcare and Other Professions

Student start results had increased by 3.7% to 3,673 for the year ended December 31, 2017 from 3,543 in the prior year comparable period. This increase represents the first time in approximately three years where student starts have yielded positive results. We believe this achievement is the result of additional marketing spend aimed at increasing student population.

Operating income for the year ended December 31, 2017 was $3.9 million compared to an operating loss of $9.4 million in the prior year comparable period. The $13.3 million change was mainly driven by the following factors:

- Revenue increased to $63.6 million for the year ended December 31, 2017, as compared to $62.9 million in the prior year comparable period. The increase in revenue is mainly attributable to a 2.9% increase in average population, partially offset by a lower carry in population year over year and a 1.6% decline in average revenue per student due to tuition decreases at certain campuses.
- Educational services and facilities expense remained essentially flat at $32.1 million and $32 million for the years ended December 31, 2017 and 2016, respectively.
- Selling, general and administrative expenses increased by $1.5 million, or 5.9%, mainly due to a $1.2 million increase in sales and marketing expense as a result of increased spending in an effort to increase student population and brand awareness and a $0.2 million increase in administrative expense as a result of increased salaries and benefits. Increased salaries and benefits resulted from the addition of administrative staff to accommodate newly transferred students from our Northeast Philadelphia, Pennsylvania and Center City Philadelphia, Pennsylvania campuses, which were closed in August 2017.
- Impairment of goodwill and long lived asset decreased by $14.3 million as a result of non-cash, pre-tax charges during the year ended December 31, 2016.

Transitional

The following table lists the schools that are categorized in the Transitional segment which are all closed as of December 31, 2017:

Campus	Date Closed
Southington, Connecticut	December 31, 2018
Center City Philadelphia, Pennsylvania	August 31, 2017
Center City Philadelphia, Pennsylvania	August 31, 2017
West Palm Beach, Florida	September 30, 2017
Brockton, Massachusetts	December 31, 2017
Lowell, Massachusetts	December 31, 2017
Fern Park, Florida	March 31, 2016
Hartford, Connecticut	December 31, 2016
Henderson (Green Valley), Nevada	December 31, 2016

Revenue for the campuses in the above table have been classified in the Transitional segment for comparability for the years ended December 31, 2017 and 2016.

Revenue was $16.9 million for the year ended December 31, 2017 as compared to $40.4 million in the prior year comparable period mainly due to the campus closures.

Operating loss decreased by $10.1 million to $6.9 million for the year ended December 31, 2017 from $17 million in the prior year comparable period. The decrease was due to campus closures.

Corporate and Other

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses decreased by $4.6 million, or 19.0%, to $19.5 million from $24.1 million in the prior year comparable period. The decrease was primarily driven by a $1.5 million gain resulting from the sale of two properties located in West Palm Beach, Florida on August 14, 2017; a reduction in salaries and benefits expense of approximately $2.5 million; and a $1.4 million non-cash impairment charge in relation to one of our corporate properties that occurred in December 31, 2016. Partially offsetting these reductions were $1.6 million in additional closed school costs. The additional closed school costs related to the closure of the Hartford, Connecticut campus on December 31, 2016. The additional expenses relating to the Hartford, Connecticut campus were due to an apartment lease for student dorms, which will end in September 2019.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are for facilities expansion and maintenance, and the development of new programs. Our principal sources of liquidity have been cash provided by operating activities and borrowings under our credit facility. The following chart summarizes the principal elements of our cash flow for each of the three years in the period ended December 31, 2018:

	Cash Flow Summary		
	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net cash used in operating activities	$(1,694)	$(11,321)	$(6,107)
Net (cash used) provided by in investing activities	$(2,349)	$10,707	$(3,145)
Net (cash used) provided by in financing activities	$(4,565)	$7,453	$(4,074)

As of December 31, 2018, the Company had a net debt balance of $3.4 million compared to a net cash balance of $1.2 million as of December 31, 2017. The net debt balance is calculated as our cash, cash equivalents and both short and long-term restricted cash less both short and long-term portion of the credit agreement. The decrease in cash position can mainly be attributed to the repayment net of borrowings of $4.1 million under our line of credit facility and a net loss during the year ended December 31, 2018, partially offset by other working capital items.

For the last several years, the Company and the proprietary school sector generally have faced deteriorating earnings growth. Government regulations have negatively impacted earnings by making it more difficult for prospective students to obtain loans, which when coupled with the overall economic environment have hindered prospective students from enrolling in our schools. In light of these factors, we have incurred significant operating losses as a result of lower student population. However, our financial and population results continue to improve as evidenced by our start growth for the last five consecutive quarters. As a result, we believe that our likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future.

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

Our primary source of cash is tuition collected from our students. The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The most significant source of student financing is Title IV Programs, which represented approximately 78% of our cash receipts relating to revenues in 2018. Pursuant to applicable regulations, students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student’s academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other funding are not subject to a 31-day delay. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV Program financial aid is refunded according to federal, state and accrediting agency standards.

As a result of the significant amount of Title IV Program funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV Program funds that our students are eligible to receive or any restriction on our eligibility to receive Title IV Program funds would have a significant impact on our operations and our financial condition. For more information, see "Risks Related to Our Industry" found under the heading" Risk Factors" in Item 1A of this Annual Report.

Operating Activities

Net cash used in operating activities was $1.7 million for the year ended December 31, 2018 compared to $11.3 million in the prior year comparable period. The decrease in cash used in operating activities for the year ended December 31, 2018 as compared to the year ended December 31, 2017 is primarily due to a reduction in net loss from operations as well as changes in other working capital such as accounts receivable, accounts payable, accrued expenses and unearned tuition.

Investing Activities

Net cash used in investing activities was $2.3 million for the year ended December 31, 2018 compared to net cash provided by investing activities of $10.7 million in the prior year comparable period. The decrease of $13.1 million was primarily the result of the sale of the West Palm Beach, Florida property on August 14, 2017, resulting in cash inflows of $15.5 million in the prior year. This was partially offset by the sale of the Mangonia Park, Florida property on August 23, 2018 which generated a cash inflow of $2.3 million in the current year.

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

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

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

Financing Activities

Net cash used in financing activities was $4.6 million for the year ended December 31, 2018 as compared to cash provided by financing activities of $7.5 million in the prior year comparable period. The decrease of $12 million was due to net payments on borrowing of $4.1 million for the year ended December 31, 2018, as compared to net borrowings of $9.1 million in the prior year comparable period. Also contributing to the change year over year were outflows in the prior year of $1.2 million relating to the write-off of previously capitalized expenditures upon execution of our current credit facility.

Net payments on borrowings consisted of: (a) total borrowing to date under our secured credit facility of $31 million; and (b) $35.1 million in total repayments made by the Company.

Credit Agreement

On March 31, 2017, the Company obtained a secured credit facility (the “Credit Facility”) from Sterling National Bank (the “Bank”) pursuant to a Credit Agreement dated March 31, 2017 among the Company, the Company’s subsidiaries and the Bank, which was subsequently amended on November 29, 2017, February 23, 2018, July 11, 2018 and, most recently, on March 6, 2019 (as amended, the “Credit Agreement”). Prior to the most recent amendment of the Credit Agreement (the “Fourth Amendment”), the financial accommodations available to the Borrowers under the Credit Agreement consisted of (a) a $25 million revolving loan facility designated as “Facility 1”, (b) a $25 million revolving loan facility (including a sublimit amount for letters of credit of $10 million) designated as “Facility 2” and (c) a $15 million revolving credit loan designated as “Facility 3”.

Pursuant to the terms of the Fourth Amendment and upon its effectiveness, Facility 1 was converted into a term loan (the “Term Loan”) in the original principal amount of $22,700,649.31 (such amount being the entire unpaid principal and accrued interest outstanding under Facility 1 as of the effective date of the Fourth Amendment), which matures on March 31, 2024 (the “Term Loan Maturity Date”). The Fourth Amendment provides for the repayment of the Term Loan in monthly installments as follows: (a) on April 1, 2019 and on the same day of each month thereafter through and including June 30, 2019, accrued interest only; (b) on July 1, 2019 and on the same day of each month thereafter through and including December 31, 2019, the principal amount of $189,172.08 plus accrued interest; (c) on January 1, 2020 and on the same day of each month thereafter through and including June 30, 2020, accrued interest only; (d) on July 1, 2020 and on the same day of each month thereafter through and including December 31, 2020, the principal amount of $567,516.24 plus accrued interest; (e) on January 1, 2021 and on the same day of each month thereafter through and including June 30, 2021, accrued interest only; (f) on July 1, 2021 and on the same day of each month thereafter through and including December 31, 2021, the principal amount of $378,344.16 plus accrued interest; (g) on January 1, 2022 and on the same day of each month thereafter through and including June 30, 2022, accrued interest only; (h) on July 1, 2022 and on the same day of each month thereafter through and including December 31, 2022, the principal amount of $378,344.16 plus accrued interest; (i) on January 1, 2023 and on the same day of each month thereafter through and including June 30, 2023, accrued interest only; (j) on July 1, 2023 and on the same day of each month thereafter through and including December 31, 2023, the principal amount of $378,344.16 plus accrued interest; (k) on January 1, 2024 and on the same day of each month thereafter through and including the Term Loan Maturity Date, accrued interest only; and (l) on the Term Loan Maturity Date, the remaining outstanding principal amount of the Term Loan, together with accrued interest, will be due and payable. In the event of a sale of any campus, school or business of the Borrowers permitted under the Credit Agreement, 25% of the net proceeds of any such sale must be used to pay down the outstanding principal amount of the Term Loan in inverse order of maturity.

The Fourth Amendment changed the maturity date of Facility 2 from May 31, 2020 to April 30, 2020. The maturity date for Facility 3 is May 31, 2019.

Under the terms of the Credit Agreement, all draws under Facility 2 for letters of credit or revolving loans and all draws under Facility 3 must be secured by cash collateral in an amount equal to 100% of the aggregate stated amount of the letters of credit issued and revolving loans outstanding through the proceeds of the Term Loan or other available cash of the Company. Notwithstanding such requirement, pursuant to the terms of the Fourth Amendment, a $2.5 million revolving loan was advanced under Facility 2 at the closing of the Fourth Amendment on March 6, 2019 without any requirement for cash collateral and, in the Bank's sole discretion, an additional $2.5 million of revolving loans may be advanced under Facility 2 without any requirement for cash collateral, consisting of (a) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending March 31, 2019 and (b) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending June 30, 2019. The $2.5 million revolving loan advanced under Facility 2 at the closing of the Fourth Amendment and the additional $2.5 million of revolving loans that may be advanced under Facility 2 in the discretion of the Bank, in each case without any requirement for cash collateral, must be repaid on November 1, 2019 and, prior to their repayment, the Borrowers are required to make monthly payments of accrued interest only on such revolving loans.

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The Term Loan bears interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans outstanding under Facility 1 prior to its conversion to a term loan also bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans advanced under Facility 2 that are cash collateralized will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%. Pursuant to the Fourth Amendment, revolving loans advanced under Facility 2 that are not secured by cash collateral will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans under Facility 3 bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%.

Under the terms of the Fourth Amendment, the Bank is entitled to receive an unused facility fee on the average daily unused balance of Facility 2 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears.

The Fourth Amendment provides that in the event the Bank's prime rate is greater than or equal to 6.50% while any loans are outstanding, the Borrowers may be required to enter into a hedging contract in form and content satisfactory to the Bank.

The Fourth Amendment requires the Borrowers to give the Bank the first opportunity to provide any and all traditional banking services required by the Borrowers, including, but not limited to, treasury management, loans and other financing services, on terms mutually acceptable to the Borrowers and the Bank, in accordance with the terms set forth in the Fourth Amendment. In the event that loans provided under the Credit Agreement are repaid through replacement financing, the Fourth Amendment requires that the Borrowers pay to the Bank an exit fee in an amount equal to 1.25% of the total amount repaid and the face amount of all letters of credit replaced in connection with the replacement financing; provided, however, that no exit fee will be required in the event the Bank or the Bank's affiliate arranges or provides the replacement financing or the payoff of the applicable loans occurs after March 5, 2021.

In connection with the effectiveness of the Fourth Amendment, the Borrowers paid to the Bank a one-time modification fee in the amount of $50,000.

Pursuant to the Credit Agreement, in December 2018, the net proceeds of the sale of the Mangonia Park Property, which were held in a non-interest bearing cash collateral account at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement, were applied to the outstanding principal balance of revolving loans outstanding under Facility 1 and, as a result of such repayment, the revolving loan availability under Facility 1 was permanently reduced to $22.7 million.

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

At the closing of the Credit Facility, the Company drew $25 million under Facility 1, which was used to repay the Company's previous credit facility and to pay transaction costs associated with closing the Credit Facility.

Each issuance of a letter of credit under Facility 2 will require the payment of a letter of credit fee to the Bank equal to a rate per annum of 1.75% on the daily amount available to be drawn under the letter of credit, which fee shall be payable in quarterly installments in arrears. Letters of credit totaling $6.2 million that were outstanding under a $9.5 million letter of credit facility previously provided to the Company by the Bank, which letter of credit facility was set to mature on April 1, 2017, are treated as letters of credit under Facility 2.

The terms of the Credit Agreement require the Company to maintain, on deposit in one or more non-interest bearing accounts, a minimum of $5 million in quarterly average aggregate balances, which, if not maintained, results in a fee of $12,500 payable to the Bank for that quarter.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants, including financial covenants that (i) restrict capital expenditures tested on a fiscal year end basis; (i) prohibit the incurrence of a net loss commencing on December 31, 2019; and (iii) require a minimum adjusted EBITDA tested quarterly on a rolling twelve month basis. The Fourth Amendment (i) modifies the minimum adjusted EBITDA required; (ii) eliminates the requirement for a minimum funded debt to adjusted EBITDA ratio; and (iii) requires the maintenance of a maximum funded debt to adjusted EBITDA ratio tested quarterly on a rolling twelve month basis. The Credit Agreement contains events of default customary for facilities of this type. As of December 31, 2018, the Company is in compliance with all covenants.

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As of December 31, 2018, the Company had $49.3 million outstanding under the Credit Facility; offset by $0.5 million of deferred finance fees. As of December 31, 2017, the Company had $53.4 million outstanding under the Credit Facility, offset by $0.8 million of deferred finance fees, which were written-off. As of December 31, 2018 and December 31, 2017, letters of credit in the aggregate outstanding principal amount of $1.8 million and $7.2 million, respectively, were outstanding under the Credit Facility. For the three months ended March 31, 2019, the Company is required to increase its letters of credit by $2.8 million related to state bond requirements which requires the Company to increase its restricted cash balance by $2.8 million.

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

	As of December 31, 2018	2017
Credit agreement	$ 49,301	$ 53,400
Deferred financing fees	(532)	(807)
Subtotal	48,769	52,593
Less current maturities	(15,000)	-
Total long-term debt	$ 33,769	$ 52,593

As of December 31, 2018, we had outstanding loan commitments to our students of $63.1 million, as compared to $51.9 million at December 31, 2017. Loan commitments, net of interest that would be due on the loans through maturity, were $46.2 million at December 31, 2018, as compared to $38.5 million at December 31, 2017.

Climate Change

Climate change has not had and is not expected to have a significant impact on our operations.

Contractual Obligations

Current portion of Long-Term Debt, Long-Term Debt and Lease Commitments. As of December 31, 2018, our current portion of long-term debt and long-term debt consisted of borrowings under our Credit Facility. We lease offices, educational facilities and various equipment for varying periods through the year 2030 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of December 31, 2018:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit facility	$ 49,301 *	$ 15,000	$ 34,301	$ -	$ -
Operating leases	73,431	16,939	24,891	13,991	17,610
Total contractual cash obligations	$ 122,732	$ 31,939	$ 59,192	$ 13,991	$ 17,610

* Excludes deferred finance fees of $0.5 million.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of December 31, 2018, except for surety bonds. At December 31, 2018, we posted surety bonds in the total amount of approximately $12.7 million. Cash collateralized letters of credit of

$1.8 million are primarily comprised of letters of credit for DOE matters and security deposits in connection with certain of our real estate leases. We are required to post surety bonds on behalf of our campuses and education representatives with multiple states to maintain authorization to conduct our business. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

SEASONALITY AND OUTLOOK

Seasonality

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

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Outlook

Similar to many companies in the proprietary education sector, we have experienced significant deterioration in student enrollments over the last several years. This can be attributed to many factors including the economic environment and numerous regulatory changes such as changes to admissions advisor compensation policies, elimination of “ability-to-benefit,” changes to the 90/10 Rule and cohort default rates, gainful employment and modifications to Title IV Program amounts and eligibility. While the industry has not returned to growth, the trends are far more stable as declines have slowed.

As the economy continues to improve and the unemployment rate continues to decline our student enrollment is negatively impacted due to a portion of our potential student base entering the workforce earlier without obtaining any post-secondary training. Offsetting this short term decline in available students is the fact that an increasing number of individuals in the “baby boom” generation are retiring from the workforce. The retirement of baby boomers coupled with a growing economy has resulted in additional employers looking to us to help solve their workforce needs. With schools in 14 states, we are a very attractive employment solution for large regional and national employers.

To fund our business plans, including any anticipated future losses, purchase commitments, capital expenditures, principal and interest payments on borrowings and to satisfy the DOE financial responsibility standards, we have entered into a credit facility as described above and continue to have the ability to sell our assets that are classified as held for sale. We are also continuing to take actions to improve cash flow by aligning our cost structure to our student population.

Effect of Inflation

Inflation has not had and is not expected to have a significant impact on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. Our obligations under our credit facility are secured by a lien on substantially all of our assets and any assets that we or our subsidiaries may acquire in the future. Outstanding borrowings under our credit facility bear interest at the rate of 8.35% as of December 31, 2018. As of December 31, 2018, we had $49.3 million outstanding under our credit facility.

Based on our outstanding debt balance as of December 31, 2018, a change of one percent in the interest rate would have caused a change in our interest expense of approximately $0.5 million, or $0.02 per basic share, on an annual basis. Changes in interest rates could have an impact on our operations, which are greatly dependent on our students’ ability to obtain financing and, as such, any increase in interest rates could greatly impact our ability to attract students and have an adverse impact on the results of our operations. The remainder of our interest rate risk is associated with miscellaneous capital equipment leases, which is not significant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See “Index to Consolidated Financial Statements” on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating, together with management, the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of December 31, 2018 have concluded that our disclosure controls and procedures are effective to reasonably ensure that material information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, 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.

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Internal Control Over Financial Reporting

During the quarter ended December 31, 2018, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standards related to leases on our financial statements to facilitate their adoption on January 1, 2019. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

Management's Annual Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on its assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's independent auditors, Deloitte & Touche LLP, an independent registered public accounting firm, audited the Company's internal control over financial reporting as of December 31, 2018, as stated in their report included in this Form 10-K that follows.

ITEM 9B. OTHER INFORMATION

(a) On March 6, 2019, the Company and its wholly-owned subsidiaries (collectively with the Company, the "Borrowers") entered into a fourth amendment (the "Fourth Amendment") of the Credit Agreement dated as of March 31, 2017 (as previously amended, the "Credit Agreement") among the Borrowers and its lender, Sterling National Bank (the "Bank").

Prior to the Fourth Amendment and as previously reported, the credit facilities available to the Borrowers under the Credit Agreement consisted of (a) a $25 million revolving loan facility designated as "Facility 1", (b) a $25 million revolving loan facility (including a sublimit amount for letters of credit of $10 million) designated as "Facility 2" and (c) a $15 million revolving credit loan facility designated as "Facility 3". Pursuant to the terms of the Fourth Amendment and upon its effectiveness, Facility 1 was converted into a term loan (the "Term Loan") in the original principal amount of $22,700,649.31 (such amount being the entire unpaid principal and accrued interest outstanding under Facility 1 as of the effective date of the Fourth Amendment), which matures on March 31, 2024 (the "Term Loan Maturity Date"). The Term Loan bears interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans outstanding under Facility 1 prior to its conversion to a term loan also bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%.

The Fourth Amendment provides for the repayment of the Term Loan in monthly installments as follows: (a) on April 1, 2019 and on the same day of each month thereafter through and including June 30, 2019, accrued interest only; (b) on July 1, 2019 and on the same day of each month thereafter through and including December 31, 2019, the principal amount of $189,172.08 plus accrued interest; (c) on January 1, 2020 and on the same day of each month thereafter through and including June 30, 2020, accrued interest only; (d) on July 1, 2020 and on the same day of each month thereafter through and including December 31, 2020, the principal amount of $567,516.24 plus accrued interest; (e) on January 1, 2021 and on the same day of each month thereafter through and including June 30, 2021, accrued interest only; (f) on July 1, 2021 and on the same day of each month thereafter through and including December 31, 2021, the principal amount of $378,344.16 plus accrued interest; (g) on January 1, 2022 and on the same day of each month thereafter through and including June 30, 2022, accrued interest only; (h) on July 1, 2022 and on the same day of each month thereafter through and including December 31, 2022, the principal amount of $378,344.16 plus accrued interest; (i) on January 1, 2023 and on the same day of each month thereafter through and including June 30, 2023, accrued interest only; (j) on July 1, 2023 and on the same day of each month thereafter through and including December 31, 2023, the principal amount of $378,344.16 plus accrued interest; (k) on January 1, 2024 and on the same day of each month thereafter through and including the Term Loan Maturity Date, accrued interest only; and (l) on the Term Loan Maturity Date, the remaining outstanding principal amount of the Term Loan, together with accrued interest, will be due and payable. In the event of a sale of any campus, school or business of the Borrowers permitted under the Credit Agreement, 25% of the net proceeds of any such sale must be used to pay down the outstanding principal amount of the Term Loan in inverse order of maturity.

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The Fourth Amendment changed the maturity date of Facility 2 from May 31, 2020 to April 30, 2020. The maturity date for Facility 3 was not changed by the Fourth Amendment and remains May 31, 2019.

The Fourth Amendment did not modify the Credit Agreement's requirement that all revolving loans advanced under Facility 2 and draws for letters of credit under Facility 2 be fully cash collateralized. Notwithstanding such requirement, pursuant to the terms of the Fourth Amendment, a $2.5 million revolving loan was advanced under Facility 2 at the closing of the Fourth Amendment without any requirement for cash collateral and, in the Bank's sole discretion, an additional $2.5 million of revolving loans may be advanced under Facility 2 without any requirement for cash collateral, consisting of (a) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending March 31, 2019 and (b) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending June 30, 2019. The $2.5 million revolving loan advanced under Facility 2 at the closing of the Fourth Amendment and the additional $2.5 million of revolving loans that may be advanced under Facility 2 in the discretion of the Bank, in each case without any requirement for cash collateral, must be repaid on November 1, 2019 and, prior to their repayment, the Borrowers are required to make monthly payments of accrued interest only on such revolving loans. Pursuant to the Fourth Amendment, revolving loans advanced under Facility 2 that are not secured by cash collateral will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00% and revolving loans advanced under Facility 2 that are cash collateralized will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%.

Under the terms of the Fourth Amendment, the Bank is entitled to receive an unused facility fee on the average daily unused balance of Facility 2 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears.

The Fourth Amendment provides that in the event the Bank's prime rate is greater than or equal to 6.50% while any loans are outstanding, the Borrowers may be required to enter into a hedging contract in form and content satisfactory to the Bank.

With respect to the financial covenants contained in the Credit Agreement, the Fourth Amendment (i) modifies the minimum adjusted EBITDA required, (ii) eliminates the requirement for a minimum funded debt to adjusted EBITDA ratio and (iii) requires the maintenance of a maximum funded debt to adjusted EBITDA ratio.

The Fourth Amendment requires the Borrowers to give the Bank the first opportunity to provide any and all traditional banking services required by the Borrowers, including, but not limited to, treasury management, loans and other financing services, on terms mutually acceptable to the Borrowers and the Bank, in accordance with the terms set forth in the Fourth Amendment. In the event that loans provided under the Credit Agreement are repaid through replacement financing, the Fourth Amendment requires that the Borrowers pay to the Bank an exit fee in an amount equal to 1.25% of the total amount repaid and the face amount of all letters of credit replaced in connection with the replacement financing; provided, however, that no exit fee will be required in the event the Bank or the Bank's affiliate arranges or provides the replacement financing or the payoff of the applicable loans occurs after March 5, 2021.

In connection with the effectiveness of the Fourth Amendment, the Borrowers paid to the Bank a one-time modification fee in the amount of $50,000.

The foregoing description of the Fourth Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Fourth Amendment filed as Exhibit 10.6 to this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) On March 8, 2019, the board of directors of the Company approved an amendment of the Company's Bylaws (as amended, the "Amended Bylaws"), effective immediately, to include a new Article XI. The new Article XI provides for the designation of the United States District Court for the District of New Jersey (or in the event that such court lacks jurisdiction to hear such action, a Superior Court of the State of New Jersey) as the sole and exclusive forum for certain types of litigation unless the Company consents in writing to the selection of an alternative forum. The foregoing description of the Amended Bylaws is not complete and is qualified in its entirety by reference to the complete text of the Amended Bylaws, a copy of which is filed as Exhibit 3.2 to this Annual Report on Form 10-K and incorporated by reference herein.

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PART III.

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

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

Certain information required by this Item 10 of Part III is incorporated by reference from a definitive proxy statement or an amendment to this Annual Report on Form 10-K that will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

Code of Ethics

We have adopted a Code of Conduct and Ethics applicable to our directors, officers and employees and certain other persons, including our Chief Executive Officer and Chief Financial Officer. A copy of our Code of Ethics is available on our website at www.lincolntech.edu. If any amendments to or waivers from the Code of Conduct are made, we will disclose such amendments or waivers on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 of Part III is incorporated by reference from a definitive proxy statement or an amendment to this Annual Report on Form 10-K that will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 of Part III is incorporated by reference from a definitive proxy statement or an amendment to this Annual Report on Form 10-K that will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 of Part III is incorporated by reference from a definitive proxy statement or an amendment to this Annual Report on Form 10-K that will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 of Part III is incorporated by reference from a definitive proxy statement or an amendment to this Annual Report on Form 10-K that will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

See "Index to Consolidated Financial Statements" on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedule

See "Index to Consolidated Financial Statements" on page F-1 of this Annual Report on Form 10-K.

3. Exhibits Required by Securities and Exchange Commission Regulation S-K

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated March 14, 2017, between New England Institute of Technology at Palm Beach, Inc. and Tambone Companies, LLC, as amended by First Amendment to Purchase and Sale Agreement dated as of April 18, 2017, and as further amended by Second Amendment to Purchase and Sale Agreement dated as of May 12, 2017 (incorporated by reference to the Company's Form 8-K filed August 16, 2017).
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form S-1/A (Registration No. 333-123644) filed June 7, 2005).
3.2*	Bylaws of the Company, as amended on March 8, 2019
4.1	Specimen Stock Certificate evidencing shares of common stock (Incorporated by reference to the Company's Registration Statement on Form S-1/A (Registration No. 333-123644) filed June 21, 2005).
10.1	Credit Agreement, dated as of March 31, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed April 6, 2017).
10.2	Credit Agreement, dated as of April 28, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed May 4, 2017).
10.3	First Amendment to Credit Agreement, dated as of November 29, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed December 1, 2017)
10.4	Second Amendment to Credit Agreement, dated as of February 23, 2018, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed February 26, 2018)
10.5	Third Amendment to Credit Agreement, dated as of July 11, 2018, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed July 13, 2018).

10.6*	Fourth Amendment to Credit Agreement, dated as of March 6, 2019, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank
10.7	Commercial Contract, dated as of July 9, 2018, between New England Institute of Technology at Palm Beach, Inc. and Elite Property Enterprise, LLC (Incorporated by reference to the Company's Form 8-K filed July 13, 2018).
10.8	Employment Agreement, dated as of November 8, 2017, between the Company and Scott M. Shaw (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).

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10.9	Employment Agreement, dated as of November 7, 2018, between the Company and Scott M. Shaw (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).
10.10	Employment Agreement, dated as of November 8, 2017, between the Company and Brian K. Meyers (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).
10.11	Employment Agreement, dated as of November 7, 2018, between the Company and Brian K. Meyers (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).
10.12	Change in Control Agreement, dated as of November 8, 2017, between the Company and Deborah Ramentol (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).
10.13	Change in Control Agreement, dated as of November 7, 2018, between the Company and Stephen M. Buchenot (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).
10.14	Lincoln Educational Services Corporation Amended and Restated 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Form 8-K filed May 6, 2013).
10.15	Lincoln Educational Services Corporation Amended and Restated 2005 Non-Employee Directors Restricted Stock Plan (Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-211213) filed May 6, 2016).
10.16	Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-123644) filed March 29, 2005).
10.17	Form of Stock Option Agreement under our 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
10.18	Form of Restricted Stock Agreement under our 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
10.19	Form of Performance-Based Restricted Stock Award Agreement under our Amended & Restated 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Form 8-K filed May 5, 2011).
21.1*	Subsidiaries of the Company.
23*	Consent of Independent Registered Public Accounting Firm.
24*	Power of Attorney (included on the Signatures page of this Form 10-K).
31.1 *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 *	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements from Lincoln Educational Services Corporation's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of

Comprehensive (Loss) Income, (v) Consolidated Statement of Changes in Stockholders’ Equity and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

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*Filed herewith.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 12, 2019

LINCOLN EDUCATIONAL SERVICES CORPORATION

By: /s/ Brian Meyers
Brian Meyers
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned constitutes and appoints Scott M. Shaw and Brian K. Meyers, and each of them, as attorneys-in-fact and agents, with full power of substitution and re-substitution, for and in the name, place and stead of the undersigned, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that each of said attorney-in-fact or substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Scott M. Shaw Scott M. Shaw	Chief Executive Officer and Director	March 12, 2019
/s/ Brian K. Meyers Brian K. Meyers	Executive Vice President, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)	March 12, 2019
/s/ Alvin O. Austin Alvin O. Austin	Director	March 12, 2019
/s/ Peter S. Burgess Peter S. Burgess	Director	March 12, 2019
/s/ James J. Burke, Jr. James J. Burke, Jr.	Director	March 12, 2019

/s/ Celia H. Currin Celia H. Currin	Director	March 12, 2019
/s/ Ronald E. Harbour Ronald E. Harbour	Director	March 12, 2019
/s/ J. Barry Morrow J. Barry Morrow	Director	March 12, 2019

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Lincoln Educational Services Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lincoln Educational Services Corporation and subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 12, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Lincoln Educational Services Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lincoln Educational Services Corporation and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 12, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
March 12, 2019

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$17,571	$14,563
Restricted cash	16,775	7,189
Accounts receivable, less allowance of $15,590 and $12,806 at December 31, 2018 and 2017, respectively	18,675	15,791
Inventories	1,451	1,657
Prepaid income taxes and income taxes receivable	178	207
Assets held for sale	-	2,959
Prepaid expenses and other current assets	2,461	2,352
Total current assets	57,111	44,718
PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of $171,109 and $163,946 at December 31, 2018 and 2017, respectively	49,292	52,866
OTHER ASSETS:		
Noncurrent restricted cash	11,600	32,802
Noncurrent receivables, less allowance of $1,403 and $978 at December 31, 2018 and 2017, respectively	12,175	8,928
Deferred income taxes, net	424	424
Goodwill	14,536	14,536
Other assets, net	900	939
Total other assets	39,635	57,629
TOTAL	$146,038	$155,213

See notes to consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Continued)

	December 31, 2018	2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of credit agreement	$15,000	$-
Unearned tuition	22,545	24,647
Accounts payable	14,107	10,508
Accrued expenses	10,605	11,771
Other short-term liabilities	2,324	558
Total current liabilities	64,581	47,484
NONCURRENT LIABILITIES:		
Long-term credit agreement	33,769	52,593
Pension plan liabilities	4,271	4,437
Accrued rent	3,410	4,338
Other long-term liabilities	141	548
Total liabilities	106,172	109,400
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2018 and 2017	-	-
Common stock, no par value - authorized 100,000,000 shares at December 31, 2018 and 2017, issued and outstanding 30,552,333 shares at December 31, 2018 and 30,624,407 shares at December 31, 2017	141,377	141,377
Additional paid-in capital	29,484	29,334
Treasury stock at cost - 5,910,541 shares at December 31, 2018 and 2017	(82,860)	(82,860)
Accumulated deficit	(44,073)	(37,528)
Accumulated other comprehensive loss	(4,062)	(4,510)
Total stockholders' equity	39,866	45,813
TOTAL	$146,038	$155,213

See notes to consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
REVENUE	$263,200	$261,853	$285,559
COSTS AND EXPENSES:			
Educational services and facilities	125,373	129,413	144,426
Selling, general and administrative	141,244	138,779	148,447
Loss (gain) on sale of assets	537	(1,623)	233
Impairment of goodwill and long-lived assets	-	-	21,367
Total costs and expenses	267,154	266,569	314,473
OPERATING LOSS	(3,954)	(4,716)	(28,914)
OTHER:			
Interest income	31	56	155
Interest expense	(2,422)	(7,098)	(6,131)
Other income	-	-	6,786
LOSS BEFORE INCOME TAXES	(6,345)	(11,758)	(28,104)
PROVISION (BENEFIT) FOR INCOME TAXES	200	(274)	200
NET LOSS	$(6,545)	$(11,484)	$(28,304)
Basic			
Net loss per share	$(0.27)	$(0.48)	$(1.21)
Diluted			
Net loss per share	$(0.27)	$(0.48)	$(1.21)
Weighted average number of common shares outstanding:			
Basic	24,423	23,906	23,453
Diluted	24,423	23,906	23,453

See notes to consolidated financial statements

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	December 31,		
	2018	2017	2016
Net loss	$(6,545)	$(11,484)	$(28,304)
Other comprehensive income			
Employee pension plan adjustments	448	1,591	971
Comprehensive loss	$(6,097)	$(9,893)	$(27,333)

See notes to consolidated financial statements

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
BALANCE - January 1, 2016	29,727,555	$ 141,377	$ 27,292	$ (82,860)	$ 2,260	$ (7,072)	$ 80,997
Net loss	-	-	-	-	(28,304)	-	(28,304)
Employee pension plan adjustments	-	-	-	-	-	971	971
Stock-based compensation expense Restricted stock	1,029,267	-	1,440	-	-	-	1,440
Net share settlement for equity-based compensation	(71,805)	-	(178)	-	-	-	(178)
BALANCE - December 31, 2016	30,685,017	141,377	28,554	(82,860)	(26,044)	(6,101)	54,926
Net loss	-	-	-	-	(11,484)	-	(11,484)
Employee pension plan adjustments	-	-	-	-	-	1,591	1,591
Stock-based compensation expense Restricted stock	128,810	-	1,220	-	-	-	1,220
Net share settlement for equity-based compensation	(189,420)	-	(440)	-	-	-	(440)
BALANCE - December 31, 2017	30,624,407	141,377	29,334	(82,860)	(37,528)	(4,510)	45,813
Net loss	-	-	-	-	(6,545)	-	(6,545)
Employee pension plan adjustments	-	-	-	-	-	448	448
Stock-based compensation expense							
Restricted stock	135,568	-	522	-	-	-	522
Net share settlement for equity-based compensation	(207,642)	-	(372)	-	-	-	(372)
BALANCE - December 31, 2018	30,552,333	$ 141,377	$ 29,484	$ (82,860)	$ (44,073)	$ (4,062)	$ 39,866

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(6,545)	$(11,484)	$(28,304)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	8,421	8,702	11,066
Amortization of deferred finance costs	369	583	949
Write-off of deferred finance charges	-	2,161	-
Deferred income taxes	-	(424)	-
Loss (gain) on disposition of assets	537	(1,623)	223
Gain on capital lease termination, net	-	-	(6,710)
Impairment of goodwill and long-lived assets	-	-	21,367
Fixed asset donation	-	(19)	(123)
Provision for doubtful accounts	17,705	13,720	14,592
Stock-based compensation expense	522	1,220	1,440
Deferred rent	(958)	(1,312)	(489)
(Increase) decrease in assets:			
Accounts receivable	(23,836)	(15,733)	(15,700)
Inventories	206	30	201
Prepaid income taxes and income taxes receivable	29	55	87
Prepaid expenses and current assets	(109)	532	412
Other assets	(191)	(1,163)	(1,701)
Increase (decrease) in liabilities:			
Accounts payable	3,753	(3,193)	742
Accrued expenses	(1,136)	(3,613)	1,195
Unearned tuition	(2,102)	(131)	(6,854)
Other liabilities	1,641	371	1,500
Total adjustments	4,851	163	22,197
Net cash used in operating activities	(1,694)	(11,321)	(6,107)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(4,697)	(4,755)	(3,596)
Proceeds from sale of property and equipment	2,348	15,462	451
Net cash (used in) provided by investing activities	(2,349)	10,707	(3,145)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	31,000	75,900	-
Payments on borrowings	(35,099)	(66,766)	(387)
Payment of deferred finance fees	(94)	(1,241)	(645)
Net share settlement for equity-based compensation	(372)	(440)	(178)
Payments under capital lease obligations	-	-	(2,864)
Net cash (used in) provided by financing activities	(4,565)	7,453	(4,074)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(8,608)	6,839	(13,326)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of year	54,554	47,715	61,041
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of year	$45,946	$54,554	$47,715

See notes to consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Continued)

	Year Ended December 31,		
	2018	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 2,030	$ 2,790	$ 5,265
Income taxes	$ 191	$ 139	$ 150
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Liabilities accrued for or noncash purchases of fixed assets	$ 265	$ 1,447	$ 2,048

See notes to consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018 AND 2017 AND FOR THE THREE YEARS ENDED DECEMBER 31, 2018

(In thousands, except share and per share amounts, schools, training sites, campuses and unless otherwise stated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

On July 9, 2018, New England Institute of Technology at Palm Beach, Inc. ("NEIT"), a wholly-owned subsidiary of the Company, entered into a commercial contract (the "Sale Agreement") with Elite Property Enterprise, LLC, pursuant to which NEIT agreed to sell to Elite Property Enterprise, LLC the real property owned by NEIT located at 1126 53rd Court North, Mangonia Park, Palm Beach County, Florida and the improvements and certain personal property located thereon (the "Mangonia Park Property"), for a cash purchase price of $2,550,000. On August 23, 2018, NEIT, consummated the sale of the Mangonia Park Property. At the closing, NEIT paid a real estate brokerage fee equal to 5% of the gross sales price and other customary closing costs and expenses. Pursuant to the provisions of the Company's Credit Agreement with its lender, Sterling National Bank, the net cash proceeds of the sale of the Mangonia Park Property were deposited into an account with the lender to serve as additional security for loans and other financial accommodations provided to the Company and its subsidiaries under the credit facility. In December 2018, the funds were used to repay the outstanding principal balance of the loans outstanding under the credit facility and such repayment permanently reduced the revolving loan availability under the credit facility designated as Facility 1 under the Company's Credit Agreement to $22.7 million.

Effective December 31, 2018, the Company completed the teach-out and ceased operation of its Lincoln College of New England ("LCNE") campus at Southington, Connecticut. The decision to close the LCNE campus followed the previously reported placement of LCNE on probation by the college's institutional accreditor, the New England Association of Schools and Colleges ("NEASC"). After evaluating alternative options, the Company concluded that teaching out and closing the campus was in the best interest of the Company and its students. Subsequent to formalizing the LCNE closure decision in August 2018, the Company partnered with Goodwin College, another NEASC- accredited institution in the region, to assist LCNE students to complete their programs of study. The majority of the LCNE students will continue their education at Goodwin College thereby limiting some of the Company's closing costs. The revenue, net loss and ending population of LCNE, as of December 31, 2017, were $8.4 million, $1.6 million and 397 students, respectively. [The Company recorded closing cost associated with the closure of the LCNE campus in 2018 of approximately $1.6 million in connection with the termination of the LCNE campus lease, which is the net present value of the remaining obligation, to be paid in equal monthly installments through January 2020 and approximately $700,000 of severance payments. LCNE results, previously reported in the HOPS segment, are now included in the Transitional segment as of December 31, 2018.]

Liquidity—For the last several years, the Company and the proprietary school sector have faced deteriorating earnings. Government regulations have negatively impacted earnings by making it more difficult for potential students to obtain loans, which, when coupled with the overall economic environment, have discouraged potential students from enrolling in post-secondary schools. In light of these factors, the Company has incurred significant operating losses as a result of lower student population. Despite these challenges, the Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future. At December 31, 2018, the Company's sources of cash primarily included cash and cash equivalents of $45.95 million (of which $28.4 million is restricted). Refer to Note 8 for more information on the Company's revolving loan facility. The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population.

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

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Cash and Cash Equivalents—Cash and cash equivalents include all cash balances and highly liquid short-term investments, which contain original maturities within three months of purchase. Pursuant to the Department of Education's cash management requirements, the Company retains funds from financial aid programs under Title IV of the Higher Education Act in segregated cash management accounts. The segregated accounts do not require a restriction on use of the cash and, as such, these amounts are classified as cash and cash equivalents on the consolidated balance sheet.

Restricted Cash—Restricted cash consists of deposits maintained at financial institutions under a cash collateral agreement pursuant to the Company's credit agreement and cash collateral for letters of credit. The amounts of $11.6 million and $32.8 million as of December 31, 2018 and 2017, respectively, of restricted cash are included in long-term assets in the consolidated balance sheets as the restrictions are greater than one year. Refer to Note 8 for more information on the Company's revolving credit facility.

Accounts Receivable—The Company reports accounts receivable at net realizable value, which is equal to the gross receivable less an estimated allowance for uncollectible accounts. Noncurrent accounts receivable represent amounts due from graduates in excess of 12 months from the balance sheet date.

Allowance for Uncollectible Accounts—Based upon experience and judgment, an allowance is established for uncollectible accounts with respect to tuition receivables. In establishing the allowance for uncollectible accounts, the Company considers, among other things, current and expected economic conditions, a student's status (in-school or out-of-school), whether or not a student is currently making payments, and overall collection history. Changes in trends in any of these areas may impact the allowance for uncollectible accounts. The receivables balances of withdrawn students with delinquent obligations are reserved for based on our collection history.

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

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

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

Advertising Costs—Costs related to advertising are expensed as incurred and approximated $29.4 million, $27.0 million and $28.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. These amounts are included in selling, general and administrative expenses in the consolidated statements of operations.

Goodwill and Other Intangible Assets— The Company tests its goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its reporting unit's carrying value to its implied fair 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, reductions in market value of the Company, and changes that restrict the activities of the acquired business, and a variety of other circumstances. If the Company determines that an impairment has occurred, it is 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, the Company 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.

When we test goodwill balances for impairment, we estimate the fair value of each of our reporting units based on projected future operating results and cash flows, market assumptions and/or comparative market multiple methods. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, relative market share, new student interest, student retention, future expansion or contraction expectations, amount and timing of future cash flows and the discount rate applied to the cash flows. Projected future operating results and cash flows used for valuation purposes do reflect improvements relative to recent historical periods with respect to, among other things, modest revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions.

At December 31, 2018 and 2017, we conducted our annual test for goodwill impairment and determined we did not have an impairment. At December 31, 2016, we conducted our annual test for goodwill impairment and determined we had an impairment of $9.9 million.

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Impairment of Long-Lived Assets—The Company reviews the carrying value of its long-lived assets and identifiable intangibles for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates long-lived assets for impairment by examining estimated future cash flows using Level 3 inputs. These cash flows are evaluated by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If the Company determines that an asset's carrying value is impaired, it will record a write-down of the carrying value of the asset and charge the impairment as an operating expense in the period in which the determination is made.

The Company concluded that for the years ended December 31, 2018 and 2017, there were no long-lived asset impairments.

The Company concluded that, for the year ended December 31, 2016, there was sufficient evidence to conclude that there was an impairment of certain long-lived assets which resulted in a pre-tax charge of $11.5 million.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company's cash balances with financial institutions typically exceed the Federal Deposit Insurance limit of $0.25 million. The Company's cash balances on deposit at December 31, 2018, exceeded the balance insured by the FDIC Corporation ("FDIC") by approximately $45.3 million. The Company has not experienced any losses to date on its invested cash.

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

With respect to student receivables, the Company had no significant concentrations of credit risk as of December 31, 2018 and 2017.

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

Stock-Based Compensation Plans—The Company measures the value of stock options on the grant date at fair value, using the Black-Scholes option valuation model. The Company amortizes the fair value of stock options, net of estimated forfeitures, utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

The Company measures the value of service and performance-based restricted stock on the fair value of a share of common stock on the date of the grant. The Company amortizes the fair value of service-based restricted stock utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

The Company amortizes the fair value of the performance-based restricted stock based on determination of the probable outcome of the performance condition. If the performance condition is expected to be met, then the Company amortizes the fair value of the number of shares expected to vest utilizing straight-line basis over the requisite performance period of the grant. However, if the associated performance condition is not expected to be met, then the Company does not recognize the stock-based compensation expense.

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

In accordance with ASC 740, the Company assesses our deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable. A valuation allowance is required to be established or maintained when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. In accordance with ASC 740, our assessment considers whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. In evaluating the realizability of deferred income tax assets, the Company considered, among other things, historical levels of income, expected future income, the expected timing of the reversals of existing temporary reporting differences, and the expected impact of tax planning strategies that may be implemented to prevent the potential loss of future income tax benefits. Significant judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company’s consolidated financial position or results of operations. Changes in, among other things, income tax legislation, statutory income tax rates, or future income levels could materially impact the Company’s valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods. See information regarding the impact of the Tax Cuts and Jobs Act in Note 11.

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The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2018 and 2017, we did not record any interest and penalties expense associated with uncertain tax positions.

Start-up Costs—Costs related to the start of new campuses are expensed as incurred.

New Accounting Pronouncements

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

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU No. 2018-13"), which eliminates, adds and modifies certain fair value measurement disclosure requirements of Accounting Standards Codification 820, Fair Value Measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company has decided not to early adopt the amendments. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2018, FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting ("ASU No. 2018-07") intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This ASU expands the scope of Topic 718, Compensation - Stock Compensation ("Topic 718"), to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost. The Company adopted ASU No. 2018-07 on January 1, 2019. The adoption of the standard did not have a material impact on the Company's consolidated financial statements. The Company will evaluate the impact of ASU No. 2018-07 for future awards to nonemployees subsequent to the effective date.

The FASB has issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718) — Scope of Modification Accounting." ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award. The FASB adopted ASU 2017-09 to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to the modification of the terms and conditions of a share-based payment award. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment award require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The Company adopted ASU 2017-09 on January 1, 2018. The adoption of ASU 2017-09 had no impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220)". The updated guidance allows entities to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") from accumulated other comprehensive income to retained earnings in their consolidated financial statements. Under the Tax Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate, which left the tax effects on items within accumulated other comprehensive income stranded at an inappropriate tax rate. The updated guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim period and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The adoption of ASU No. 2018-02 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment.” ASU 2017-04 provides amendments to Accounting Standards Code (“ASC”) 350, “Intangibles - Goodwill and Other,” which eliminate Step 2 from the goodwill impairment test. Entities should perform their goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company adopted the provisions of ASU 2017-04 as of April 1, 2017. As fair values for our operating units exceed their carrying values, there has been no impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business ("ASU No. 2017-01"). Under the amendments in this update, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs to be considered a business. In acquisitions where outputs are not present, FASB has developed more stringent criteria for sets of transferred assets and activities without outputs. The Company adopted ASU No. 2017-01 on January 1, 2018. There was no material impact associated with the adoption of the standard.

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In November 2016, the FASB issued ASU 2016-18: “Statement of Cash Flows (Topic 230): Restricted Cash.” This guidance was issued to address the disparity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments will require that the statement of cash flows explain the change during the period in total cash, cash equivalents and restricted cash. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted the new standard effective January 1, 2018. The amendments were applied using a retrospective transition method to each period presented. The Company includes in its cash and cash-equivalent balances in the consolidated statements of cash flows those amounts that have been classified as restricted cash and restricted cash equivalents for each of the periods presented.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted the new standard effective January 1, 2018. The adoption of ASU 2016-15 had no impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard, ASU 2014-09, “Revenue from Contracts with Customers.” The amendments include ASU 2016-08, “Revenue from Contracts with Customers (Topic 606)—Principal versus Agent Considerations,” issued in March 2016, which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU 2016-10, “Revenue from Contracts with Customers (Topic 606)—Identifying Performance Obligations and Licensing,” issued in April 2016, which amends the guidance in ASU No. 2014-09 related to identifying performance obligations. The new standard, which supersedes previously existing revenue recognition guidance, creates a five-step model for revenue recognition requiring companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model requires (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue at the time that each performance obligation is satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption.

We adopted the new standard effective January 1, 2018 using the modified retrospective approach. The Company’s revenue streams primarily consist of tuition and related services provided to students over the course of the program as well as other transactional revenue such as tools. Based on the Company's assessment, the analysis of the contract portfolio under ASU 2016-10 results in the revenue for the majority of the Company's student contracts being recognized over time which is consistent with the Company's previous revenue recognition model. For all student contracts, there is continuous transfer of control to the student and the number of performance obligations under ASU 2016-10 is consistent with those identified under the existing standard. The impact of the adoption of the new standard on revenue recognition for student contracts is immaterial on its consolidated financial statements. See additional information in Note 4.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU No. 2016-02"). This guidance amends the existing accounting considerations and treatments for leases through the creation of Topic 842, Leases, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from such leases.

In July 2018, FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases ("ASU No. 2018-10”) to further clarify, correct and consolidate various areas previously discussed in ASU 2016-02. FASB also issued ASU No. 2018-11, Leases: Targeted Improvements ("ASU 2018-11") to provide entities another option for transition and lessors with a practical expedient. The transition option allows entities to not apply ASU No. 2016-02 in comparative periods in the financial statements in the year of adoption. The practical expedient offers lessors an option to not separate non-lease components from the associated lease components when certain criteria are met.

The amendments in ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and allow for modified retrospective adoption with early adoption permitted. The Company adopted the amendments on January 1, 2019 using the modified retrospective approach and elected the transition relief package of practical expedients by applying previous accounting conclusions under ASC 840 to all leases that existed prior to the transition date. As a result, the Company did not reassess (1) whether existing or expired contracts contain leases, 2) lease classification for any existing or expired leases and 3) whether lease origination costs qualified as initial direct costs. The Company did not elect the practical expedient to use hindsight in determining a lease term and impairment of the ROU assets at the adoption date. Additionally, the Company did not separate lease components from non-lease components for the specified asset classes.

The Company established a corporate implementation team, which engages with cross-functional representatives from all its businesses. The Company utilized a bottom-up approach to analyze the impact of the standard on its lease contract portfolio by reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to lease arrangements. In addition, the Company identified and implemented the appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new standard.

The Company determines if an arrangement is a lease at inception. A ROU asset represents the Company’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are to be recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company’s operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available on the adoption date in determining the present value of lease payments. The implicit rate is to be applied when readily determinable. The operating lease ROU assets will also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments will be recognized on a straight-line basis over the lease term. Finance leases are to be included in property and equipment, other current liabilities, and other long-term liabilities within the consolidated balance sheets. Upon adoption of the new leasing standards, we expect to recognize a lease liability between $46 million and $49 million and a right-to-use asset between $42 million and $45 million on our consolidated balance sheet. The impact to retained earnings is expected to be immaterial.

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2. FINANCIAL AID AND REGULATORY COMPLIANCE

Financial Aid

The Company’s schools and students participate in a variety of government-sponsored financial aid programs that assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as the Title IV Programs, which are administered by the U.S. Department of Education (the "DOE"). During the years ended December 31, 2018, 2017 and 2016, approximately 78%, 78% and 79%, respectively, of net revenues on a cash basis were indirectly derived from funds distributed under Title IV Programs.

For the years ended December 31, 2018, 2017 and 2016, the Company calculated that no individual DOE reporting entity received more than 90% of its revenue, determined on a cash basis under DOE regulations, from the Title IV Program funds. The Company’s calculations may be subject to review by the DOE. Under DOE regulations, a proprietary institution that derives more than 90% of its total revenue from the Title IV Programs for two consecutive fiscal years becomes immediately ineligible to participate in the Title IV Programs and may not reapply for eligibility until the end of two fiscal years. An institution with revenues exceeding 90% for a single fiscal year, will be placed on provisional certification and may be subject to other enforcement measures. If one of the Company’s institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

Regulatory Compliance

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. For this reason, the schools are subject to extensive regulatory requirements imposed by all of these entities. After the schools receive the required certifications by the appropriate entities, the schools must demonstrate their compliance with the DOE regulations of the Title IV Programs on an ongoing basis. Included in these regulations is the requirement that the institution must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based upon the institution’s annual audited financial statements, as well as following a change in ownership resulting in a change of control of the institution. The DOE calculates the institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit. This composite score can range from -1 to +3.

The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight. If an institution’s composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as “the zone.” Under the DOE regulations, institutions that are in the zone typically may be permitted by the DOE to continue to participate in the Title IV Programs by choosing one of two alternatives: 1) the “Zone Alternative” under which the institution is required to make disbursements to students under the Heightened Cash Monitoring 1 (HCM1) payment method and to notify the DOE within 10 days after the occurrence of certain oversight and financial events or 2) submit a letter of credit to the DOE in an amount determined by the DOE and equal to at least 50 percent of the Title IV Program funds received by the institution during the most recent fiscal year. Under the HCM1 payment method, the institution is required to make Title IV Program disbursements to eligible students and parents before it requests or receives funds for the amount of those disbursements from the DOE. As long as the student accounts are credited before the funding requests are initiated, the institution is permitted to draw down funds through the DOE’s electronic system for grants management and payments for the amount of disbursements made to eligible students. Unlike the Heightened Cash Monitoring 2 (HCM2) and reimbursement payment methods, the HCM1 payment method typically does not require schools to submit documentation to the DOE and wait for DOE approval before drawing down Title IV Program funds. If a Company's composite score is below 1.5 for three consecutive years an institution may be able to continue to operate under the Zone Alternative; however, this determination is made solely by the DOE. If an institution's composite score drops below 1.0 in a given year or if its composite score remains between 1.0 and 1.4 for three or more consecutive years, it may be required to meet alternative requirements for continuing to participate in Title IV Programs by submitting a letter of credit, complying with monitoring requirements, disbursing Title IV Program funds under the HCM1, HCM2, or reimbursement payment methods, and complying with other requirements and conditions. Effective July 1, 2016, a school subject to HCM1, HCM2 or reimbursement payment methods must also pay any credit balances due to a student before drawing down funds for the amount of those disbursements from the DOE, even if the student or his or her parent provides written authorization for the school to hold the credit balance. The DOE permits an institution to participate under the "Zone Alternative" for a period of up to three consecutive fiscal years; however, this determination is made solely by the DOE. If an institution's composite score is between 1.0 and 1.4 after three or more consecutive years with a composite score below 1.5, it may be required to meet alternative requirements for continuing to participate in Title IV Programs by submitting a letter of credit, complying with monitoring requirements, disbursing Title IV Program funds under the HCM1, HCM2, or reimbursement payment methods, and complying with other requirements and conditions.

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

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

For the 2018 fiscal year, the Company calculated its composite score to be 1.1. The score is subject to determination by the DOE once it receives and reviews the Company's audited financial statements for the 2018 fiscal year. The DOE has evaluated the financial responsibility of our institutions on a consolidated basis. The Company has submitted to the DOE our audited financial statements for the 2017 and 2016 fiscal years reflecting a composite score of 1.1 and 1.5, respectively, based upon its calculations.

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

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

3. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted income per share for the years ended December 31, 2018, 2017 and 2016, respectively were as follows:

	Year Ended December 31,		
	2018	2017	2016
Basic shares outstanding	24,423,479	23,906,395	23,453,427
Dilutive effect of stock options	-	-	-
Diluted shares outstanding	24,423,479	23,906,395	23,453,427

For the years ended December 31, 2018, 2017 and 2016, options to acquire 50,422, 570,306, and 773,078 shares, respectively, were excluded from the above table because the Company reported a net loss for the year and, therefore, their impact on reported loss per share would have been antidilutive. For the years ended December 31, 2018, 2017 and 2016, options to acquire 139,000, 167,667, and 218,167 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 loss per share would have been antidilutive.

4. REVENUE RECOGNITION

Prior to adoption of ASU 2014-09

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 as the student proceeds through the program, which is the period of time from a student's start date through his or her graduation date (including internships or externships, if any, occurring prior to graduation), and we complete the performance of teaching the student entitling us to the revenue. Other revenues, such as tool sales and contract training revenues, are recognized as goods are delivered or training completed. 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.

We evaluate whether collectability of revenue is reasonably assured prior to the student commencing a program by attending class and reassess collectability of tuition and fees when a student withdraws from a course. We calculate the amount to be returned under Title IV and its stated refund policy to determine eligible charges and, if there is a balance due from the student after this calculation, we expect payment from the student. We have a process to pursue uncollected accounts whereby, based upon the student's financial means and ability to pay, a payment plan is established with the student to ensure that collectability is reasonable. We continuously monitor our historical collections to identify potential trends that may impact our determination that collectability of receivables for withdrawn students is realizable. 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. Generally, the amount to be refunded to a student is calculated based upon the period of time the student has attended classes and the amount of tuition and fees paid by the student as of his or her withdrawal date. These refunds typically reduce deferred tuition revenue and cash on our consolidated balance sheets as we generally do not recognize tuition revenue in our consolidated statements of income (loss) until the related refund provisions have lapsed. Based on the application of our refund policies, we may be entitled to incremental revenue on the day the student withdraws from one of our schools. We record revenue for students who withdraw from one of our schools when payment is received because collectability on an individual student basis is not reasonably assured.

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After adoption of ASU 2014-09

On January 1, 2018, we adopted the new standard on revenue recognition, ASU 2014-09, using the modified retrospective approach of ASU 2016-10. The adoption of the guidance in ASU 2014-09 as amended by ASU 2016-10 did not have a material impact on the measurement or recognition of revenue in any prior or current reporting periods and there was no adjustment to retained earnings. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to students in an amount that reflects the consideration to which the company expects to be entitled in exchange for such goods or services.

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

Unearned tuition is the only significant contract asset or liability impacted by our adoption of ASU 2016-10. Unearned tuition in the amount of $22.5 million and $24.6 million is recorded in the current liabilities section of the accompanying consolidated balance sheets as of December 31, 2018 and December 31, 2017, respectively. The change in the contract liability balance during the year ended December 31, 2018 is the result of payments received in advance of satisfying performance obligations, offset by revenue recognized during that period. Revenue recognized for the year ended December 31, 2018 that were included in the contract liability balance at the beginning of the year was $24.5 million.

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The following table depicts the timing of revenue recognition:

	Year ended December 31, 2018			
	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Transitional Segment	Consolidated
Timing of Revenue Recognition				
Services transferred at a point in time	$10,351	$ 3,834	$ 72	$ 14,257
Services transferred over time	174,912	68,301	5,730	248,943
Total revenues	$185,263	$ 72,135	$ 5,802	$ 263,200

	Year ended December 31, 2017			
	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Transitional Segment	Consolidated
Timing of Revenue Recognition				
Services transferred at a point in time	$8,987	$ 2,860	$ 28	$ 11,875
Services transferred over time	172,341	60,781	16,856	249,978
Total revenues	$181,328	$ 63,641	$ 16,884	$ 261,853

	Year ended December 31, 2016			
	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Transitional Segment	Consolidated
Timing of Revenue Recognition				
Services transferred at a point in time	$8,856	$ 2,765	$ 556	$ 12,177
Services transferred over time	173,421	60,105	39,856	273,382
Total revenues	$182,277	$ 62,870	$ 40,412	$ 285,559

5. GOODWILL

Changes in the carrying amount of goodwill during the years ended December 31, 2018 and 2017 are as follows:

	Gross Goodwill Balance	Accumulated Impairment Losses	Net Goodwill Balance
Balance as of January 1, 2017	$117,176	$ 102,640	$14,536
Adjustments	-	-	-
Balance as of December 31, 2017	117,176	102,640	14,536
Adjustments	-	-	-
Balance as of December 31, 2018	$117,176	$ 102,640	$14,536

As of December 31, 2018 and 2017, the goodwill balance of $14.5 million is related to the Transportation and Skilled Trades segment.

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6. PROPERTY, EQUIPMENT AND FACILITIES

Property, equipment and facilities consist of the following:

	Useful life (years)	At December 31, 2018	2017
Land	-	$6,969	$6,969
Buildings and improvements	1-25	128,431	127,027
Equipment, furniture and fixtures	1-7	83,766	81,772
Vehicles	3	916	883
Construction in progress	-	319	161
		220,401	216,812
Less accumulated depreciation and amortization		(171,109)	(163,946)
		$49,292	$52,866

Depreciation and amortization expense of property, equipment and facilities was $8.4 million, $8.7 million and $11.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As discussed in Note 1, the Company sold its property in Mangonia Park Palm Beach County, Florida and associated assets.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	At December 31, 2018	2017
Accrued compensation and benefits	$4,337	$3,114
Accrued rent and real estate taxes	3,057	3,151
Other accrued expenses	3,211	5,506
	$10,605	$11,771

8. LONG-TERM DEBT

Long-term debt consist of the following:

	At December 31, 2018	2017
Credit agreement	$49,301	$53,400
Deferred financing fees	(532)	(807)
	48,769	52,593
Less current maturities	(15,000)	-
	$33,769	$52,593

On March 31, 2017, the Company obtained a secured credit facility (the “Credit Facility”) from Sterling National Bank (the “Bank”) pursuant to a Credit Agreement dated March 31, 2017 among the Company, the Company’s subsidiaries and the Bank, which was subsequently amended on November 29, 2017, February 23, 2018, July 11, 2018 and, most recently, on March 6, 2019 (as amended, the “Credit Agreement”). Prior to the most recent amendment of the Credit Agreement (the “Fourth Amendment”), the financial accommodations available to the Borrowers under the Credit

Agreement consisted of (a) a $25 million revolving loan facility designated as “Facility 1”, (b) a $25 million revolving loan facility (including a sublimit amount for letters of credit of $10 million) designated as “Facility 2” and (c) a $15 million revolving credit loan designated as “Facility 3”.

Pursuant to the terms of the Fourth Amendment and upon its effectiveness, Facility 1 was converted into a term loan (the “Term Loan”) in the original principal amount of $22.7 million (such amount being the entire unpaid principal and accrued interest outstanding under Facility 1 as of the effective date of the Fourth Amendment), which matures on March 31, 2024 (the “Term Loan Maturity Date”). The Fourth Amendment provides for the repayment of the Term Loan in monthly installments as follows: (a) on April 1, 2019 and on the same day of each month thereafter through and including June 30, 2019, accrued interest only; (b) on July 1, 2019 and on the same day of each month thereafter through and including December 31, 2019, the principal amount of $10.2 million plus accrued interest; (c) on January 1, 2020 and on the same day of each month thereafter through and including June 30, 2020, accrued interest only; (d) on July 1, 2020 and on the same day of each month thereafter through and including December 31, 2020, the principal amount of $0.6 million plus accrued interest; (e) on January 1, 2021 and on the same day of each month thereafter through and including June 30, 2021, accrued interest only; (f) on July 1, 2021 and on the same day of each month thereafter through and including December 31, 2021, the principal amount of $0.4 million plus accrued interest; (g) on January 1, 2022 and on the same day of each month thereafter through and including June 30, 2022, accrued interest only; (h) on July 1, 2022 and on the same day of each month thereafter through and including December 31, 2022, the principal amount of $0.4 million plus accrued interest; (i) on January 1, 2023 and on the same day of each month thereafter through and including June 30, 2023, accrued interest only; (j) on July 1, 2023 and on the same day of each month thereafter through and including December 31, 2023, the principal amount of $0.4 million plus accrued interest; (k) on January 1, 2024 and on the same day of each month thereafter through and including the Term Loan Maturity Date, accrued interest only; and (l) on the Term Loan Maturity Date, the remaining outstanding principal amount of the Term Loan, together with accrued interest, will be due and payable. In the event of a sale of any campus, school or business of the Borrowers permitted under the Credit Agreement, 25% of the net proceeds of any such sale must be used to pay down the outstanding principal amount of the Term Loan in inverse order of maturity.

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The Fourth Amendment changed the maturity date of Facility 2 from May 31, 2020 to April 30, 2020. The maturity date for Facility 3 is May 31, 2019.

Under the terms of the Credit Agreement, all draws under Facility 2 for letters of credit or revolving loans and all draws under Facility 3 must be secured by cash collateral in an amount equal to 100% of the aggregate stated amount of the letters of credit issued and revolving loans outstanding through the proceeds of the Term Loan or other available cash of the Company. Notwithstanding such requirement, pursuant to the terms of the Fourth Amendment, a $2.5 million revolving loan was advanced under Facility 2 at the closing of the Fourth Amendment on March 6, 2019 without any requirement for cash collateral and, in the Bank's sole discretion, an additional $2.5 million of revolving loans may be advanced under Facility 2 without any requirement for cash collateral, consisting of (a) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending March 31, 2019 and (b) a $1.25 million revolving loan within 15 days after the Bank's receipt of the Company's financial statements for the fiscal quarter ending June 30, 2019. The $2.5 million revolving loan advanced under Facility 2 at the closing of the Fourth Amendment and the additional $2.5 million of revolving loans that may be advanced under Facility 2 in the discretion of the Bank, in each case without any requirement for cash collateral, must be repaid on November 1, 2019 and, prior to their repayment, the Borrowers are required to make monthly payments of accrued interest only on such revolving loans.

The Term Loan bears interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans outstanding under Facility 1 prior to its conversion to a term loan also bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans advanced under Facility 2 that are cash collateralized will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%. Pursuant to the Fourth Amendment, revolving loans advanced under Facility 2 that are not secured by cash collateral will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans under Facility 3 bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%.

Under the terms of the Fourth Amendment, the Bank is entitled to receive an unused facility fee on the average daily unused balance of Facility 2 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears.

The Fourth Amendment provides that in the event the Bank's prime rate is greater than or equal to 6.50% while any loans are outstanding, the Borrowers may be required to enter into a hedging contract in form and content satisfactory to the Bank.

The Fourth Amendment requires the Borrowers to give the Bank the first opportunity to provide any and all traditional banking services required by the Borrowers, including, but not limited to, treasury management, loans and other financing services, on terms mutually acceptable to the Borrowers and the Bank, in accordance with the terms set forth in the Fourth Amendment. In the event that loans provided under the Credit Agreement are repaid through replacement financing, the Fourth Amendment requires that the Borrowers pay to the Bank an exit fee in an amount equal to 1.25% of the total amount repaid and the face amount of all letters of credit replaced in connection with the replacement financing; provided, however, that no exit fee will be required in the event the Bank or the Bank's affiliate arranges or provides the replacement financing or the payoff of the applicable loans occurs after March 5, 2021.

In connection with the effectiveness of the Fourth Amendment, the Borrowers paid to the Bank a one-time modification fee in the amount of $50,000.

Pursuant to the Credit Agreement, in December 2018, the net proceeds of the sale of the Mangonia Park Property, which were held in a non-interest bearing cash collateral account at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement, were applied to the outstanding principal balance of revolving loans outstanding under Facility 1 and, as a result of such repayment, the revolving loan availability under Facility 1 was permanently reduced to $22.7 million.

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

At the closing of the Credit Facility, the Company drew $25 million under Facility 1, which was used to repay the Company's previous credit facility and to pay transaction costs associated with closing the Credit Facility.

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Each issuance of a letter of credit under Facility 2 will require the payment of a letter of credit fee to the Bank equal to a rate per annum of 1.75% on the daily amount available to be drawn under the letter of credit, which fee shall be payable in quarterly installments in arrears. Letters of credit totaling $6.2 million that were outstanding under a $9.5 million letter of credit facility previously provided to the Company by the Bank, which letter of credit facility was set to mature on April 1, 2017, are treated as letters of credit under Facility 2.

The terms of the Credit Agreement require the Company to maintain, on deposit in one or more non-interest bearing accounts, a minimum of $5 million in quarterly average aggregate balances, which, if not maintained, results in a fee of $12,500 payable to the Bank for that quarter.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants, including financial covenants that (i) restrict capital expenditures tested on a fiscal year end basis; (i) prohibit the incurrence of a net loss commencing on December 31, 2019; and (iii) require a minimum adjusted EBITDA tested quarterly on a rolling twelve month basis. The Fourth Amendment (i) modifies the minimum adjusted EBITDA required; (ii) eliminates the requirement for a minimum funded debt to adjusted EBITDA ratio; and (iii) requires the maintenance of a maximum funded debt to adjusted EBITDA ratio tested quarterly on a rolling twelve month basis. The Credit Agreement contains events of default customary for facilities of this type. As of December 31, 2018, the Company is in compliance with all covenants.

As of December 31, 2018, the Company had $49.3 million outstanding under the Credit Facility; offset by $0.5 million of deferred finance fees. As of December 31, 2017, the Company had $53.4 million outstanding under the Credit Facility, offset by $0.8 million of deferred finance fees, which were written-off. As of December 31, 2018 and December 31, 2017, letters of credit in the aggregate outstanding principal amount of $1.8 million and $7.2 million, respectively, were outstanding under the Credit Facility. For the three months ended March 31, 2019, the Company is required to increase its letters of credit by $2.8 million related to state bond requirements which requires the Company to increase its restricted cash balance by $2.8 million.

Scheduled maturities of long-term debt at December 31, 2018 are as follows:

Year ending December 31,	
2019	$15,000 *
2020	33,769
2021	-
2022	-
2023	-
Thereafter	-
	$48,769

* Includes deferred finance fees of $0.5 million.

9. STOCKHOLDERS' EQUITY

Restricted Stock

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

Under the LTIP, certain employees received awards of restricted shares of common stock based on service and performance. 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.

On February 23, 2018, restricted shares of common stock of the Company were granted to certain employees of the Company, which shares vested immediately. There is no restriction on the right to vote or the right to receive dividends with respect to any of such restricted shares; however, the recipient can only sell or otherwise transfer the shares after the expiration of a specified period of time ranging from 120 to 240 days following the date of grant.

On May 13, 2016 and January 16, 2017, performance-based restricted shares were granted to certain employees of the Company, which vest on March 15, 2017 and March 15, 2018 based upon the attainment of a financial metric during each fiscal year ending December 31, 2016 and 2017. These shares were fully vested as of March 31, 2018 and are held without restriction.

On June 2, 2014 and December 18, 2014, performance-based restricted shares were granted to certain employees of the Company, which vest over three years based upon the attainment of (i) a specified operating income margin during any one or more of the fiscal years in the period beginning January 1, 2015 and ending December 31, 2017 and (ii) the attainment of earnings before interest, taxes, depreciation and amortization targets during each of the fiscal years ended December 31, 2015 through 2017. There is no restriction on the right to vote or the right to receive dividends with respect to any of these restricted shares.

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

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In 2018, 2017 and 2016, the Company completed a net share settlement for 207,642, 189,420 and 71,805 restricted shares and stock options exercised, respectively, on behalf of certain employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP or exercise of the stock options. The net share settlement was in connection with income taxes incurred on restricted shares or stock option exercises that vested and were transferred to the employee during 2018, 2017 and/or 2016, creating taxable income for the employee. At the employees' request, the Company will pay these taxes on behalf of the employees in exchange for the employees returning an equivalent value of restricted shares or shares acquired upon the exercise of stock options to the Company. These transactions resulted in a decrease of approximately $0.4 million, $0.4 million and $0.2 million in 2018, 2017 and 2016, respectively, to equity as the cash payment of the taxes effectively was a repurchase of the restricted shares or shares acquired through the exercise of stock options granted in previous years.

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

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock outstanding at December 31, 2016	1,143,599	$ 1.89
Granted	181,208	2.58
Cancelled	(52,398)	5.63
Vested	(664,415)	1.77
Nonvested restricted stock outstanding at December 31, 2017	607,994	1.90
Granted	135,568	1.60
Cancelled	-	-
Vested	(707,654)	1.82
Nonvested restricted stock outstanding at December 31, 2018	35,908	2.23

The restricted stock expense for each of the years ended December 31, 2018, 2017 and 2016 was $0.5 million, $1.2 million and $1.4 million, respectively. The unrecognized restricted stock expense as of December 31, 2018 and 2017 was less than $0.1 million and $0.3 million, respectively. As of December 31, 2018, unrecognized restricted stock expense will be expensed over the weighted-average period of approximately 5 months. As of December 31, 2018, outstanding restricted shares under the LTIP had an aggregate intrinsic value of $0.1 million. For the year ended December 31, 2017, 52,398 shares were cancelled as the performance criteria was not met.

Stock Options

During 2018, 2017 and 2016 there were no new stock option grants. The following is a summary of transactions pertaining to the option plans:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding January 1, 2016	246,167	$ 12.52	3.98 years	$ -
Cancelled	(28,000)	15.76		-
Outstanding December 31, 2016	218,167	12.11	3.33 years	-
Cancelled	(50,500)	12.09		-

Outstanding December 31, 2017	167,667	12.11	2.97 years	-
Cancelled	(28,667)	11.98		
Outstanding December 31, 2018	139,000	12.14	2.53 years	-
Vested as of December 31, 2018	139,000	12.14	2.53 years	-
Exercisable as of December 31, 2018	139,000	12.14	2.53 years	-

As of December 31, 2018, there are no unrecognized pre-tax compensation expense for unvested stock option awards.

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The following table presents a summary of options outstanding at December 31, 2018:

	At December 31, 2018				
	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares	Contractual Weighted Average life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 4.00-$13.99	91,000	3.17	$ 7.79	91,000	$ 7.79
$ 14.00-$19.99	17,000	0.84	19.98	17,000	19.98
$ 20.00-$25.00	31,000	1.59	20.62	31,000	20.62
	139,000	2.53	12.14	139,000	12.14

10. PENSION PLAN

The Company sponsors a noncontributory defined benefit pension plan covering substantially all of the Company's union employees. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994 for non-union employees.

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

	Year Ended December 31,		
	2018	2017	2016
CHANGES IN BENEFIT OBLIGATIONS:			
Benefit obligation-beginning of year	$23,492	$22,916	$23,341
Service cost	28	29	28
Interest cost	755	840	888
Actuarial (gain) loss	(1,951)	721	(255)
Benefits paid	(1,219)	(1,014)	(1,086)
Benefit obligation at end of year	21,105	23,492	22,916
CHANGE IN PLAN ASSETS:			
Fair value of plan assets-beginning of year	19,055	17,548	17,792
Actual return on plan assets	(1,000)	2,521	842
Benefits paid	(1,220)	(1,014)	(1,086)
Fair value of plan assets-end of year	16,835	19,055	17,548
BENEFIT OBLIGATION IN EXCESS OF FAIR VALUE FUNDED STATUS:	$(4,270)	$(4,437)	$(5,368)

For the year ended December 31, 2018, the actuarial gain of $1.9 million was due to the increase in the discount rate from 3.36% to 4.01%.

Amounts recognized in the consolidated balance sheets consist of:

	At December 31,		
	2018	2017	2016
Noncurrent liabilities	$(4,270)	$(4,437)	$(5,368)

Amounts recognized in accumulated other comprehensive loss consist of:

	Year Ended December 31,		
	2018	2017	2016
Accumulated loss	$(6,428)	$(6,876)	$(8,467)
Deferred income taxes	2,366	2,366	2,366
Accumulated other comprehensive loss	$(4,062)	$(4,510)	$(6,101)

The accumulated benefit obligation was $21.1 million and $23.5 million at December 31, 2018 and 2017, respectively.

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The following table provides the components of net periodic cost for the plan:

	Year Ended December 31, 2018	2017	2016
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$28	$29	$28
Interest cost	755	840	888
Expected return on plan assets	(1,104)	(1,058)	(1,118)
Recognized net actuarial loss	601	850	991
Net periodic benefit cost	$280	$661	$789

The estimated net loss, transition obligation and prior service cost for the plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $0.6 million.

The following tables present plan assets using the fair value hierarchy as of December 31, 2018 and 2017. The fair value hierarchy has three levels based on the reliability of inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using observable prices that are based on inputs not quoted in active markets but observable by market data, while Level 3 includes the fair values estimated using significant non-observable inputs. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	$ 5,428	$ -	$ -	$5,428
Fixed income	5,852	-	-	5,852
International equities	3,734	-	-	3,734
Real estate	795	-	-	795
Cash and equivalents	1,026	-	-	1,026
Balance at December 31, 2018	$ 16,835	$ -	$ -	$16,835

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	$ 6,856	$ -	$ -	$6,856
Fixed income	6,818	-	-	6,818
International equities	3,490	-	-	3,490
Real estate	1,133	-	-	1,133
Cash and equivalents	758	-	-	758
Balance at December 31, 2017	$ 19,055	$ -	$ -	$19,055

Fair value of total plan assets by major asset category as of December 31:

	2018	2017
Equity securities	32 %	36 %

Fixed income	35 %	36 %
International equities	22 %	18 %
Real estate	5 %	6 %
Cash and equivalents	6 %	4 %
Total	100 %	100 %

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

	2018	2017	2016
Discount rate	4.01 %	3.36%	3.81%
Rate of compensation increase	2.50 %	2.50%	2.50%

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

	2018	2017	2016
Discount rate	4.01 %	3.36%	3.81%
Rate of compensation increase	2.50 %	2.50%	2.50%
Long-term rate of return	6.25 %	6.00%	6.25%

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

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

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

The Company does not expect to make contributions to the plan in 2019. However after considering the funded status of the plan, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make additional contributions to the plan in any given year.

The total amount of the Company's contributions paid under its pension plan was zero for each of the years ended December 31, 2018 and 2017, respectively.

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

Year Ending December 31,	
2019	$1,335
2020	1,347
2021	1,350
2022	1,368
2023	1,382
Years 2024-2028	6,859

The Company has a 401(k) defined contribution plan for all eligible employees. Employees may contribute up to 25% of their compensation into the plan. The Company may contribute up to an additional 30% of the employee's contributed amount up to 6% of compensation. For the years ended December 31, 2018, 2017 and 2016, the

Company's expense for the 401(k) plan amounted to $0.1 million, $0.1 million and $0.7 million, respectively.

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11. INCOME TAXES

Components of the provision for income taxes were as follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$ -	$ -	$ -
State	200	150	200
Total	200	150	200
Deferred:			
Federal	-	(424)	-
State	-	-	-
Total	-	(424)	-
Total (benefit) provision	$ 200	$ (274)	$ 200

Effective Tax rate

The reconciliation of the effective tax rate to the U.S. Statutory Federal Income tax rate was:

	Year Ended December 31,					
	2018		2017		2016	
Loss before taxes	$(6,345)		$(11,758)		$(28,104)	
Expected tax benefit	$(1,332)	21.0 %	$(4,115)	35.0 %	$(9,836)	35.0 %
State tax benefit (net of federal)	200	(3.2)	150	(1.3)	200	(0.7)
Valuation allowance	1,230	(19.4)	(13,920)	118.4	9,726	(34.6)
Federal tax reform - deferred rate change	49	(0.8)	17,671	(150.3)	-	-
Other	53	(0.8)	(60)	0.5	110	(0.4)
Total	$200	(3.2 %)	$(274)	2.3 %	$200	(0.7 %)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation known as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act establishes new tax laws that took effect in 2018, including, but not limited to (1) reduction of the U.S. federal corporate tax rate from a maximum of 35% to 21%; (2) elimination of the corporate alternative minimum tax (AMT); (3) a new limitation on deductible interest expense; (4) the repeal of the domestic production activity deduction; (5) limitations on the deductibility of certain executive compensation; and (6) limitation on net operating losses (NOLs) generated after December 31, 2017, to 80% of taxable income. In addition, certain changes were made to the bonus depreciation rules that impacted fiscal year 2017.

Our provision for income taxes was $0.2 million, or (3.2%) of pretax loss, for the year ended December 31, 2018, compared to a benefit for income taxes of $0.3 million, or 2.3% of pretax loss, in the prior year comparable period. No federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance. Income tax expense resulted from various minimal state tax expenses.

The deferred tax provision benefit in the prior year was due to recognition of $ 0.4 million of valuation allowance for the AMT credits. The tax expense in prior year included an adjustment to measure net deferred tax assets at the new U.S. tax rate of 21%. The expense was offset with a corresponding release of valuation allowance.

In accordance with Staff Accounting Bulletin 118 ("SAB 118"), we completed our analysis of the Tax Act resulting in no material adjustments from the provisional amounts recorded during the prior year. The Tax Act did not have a material impact on our financial statements because we are under a full valuation allowance.

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Deferred Taxes and Valuation Allowance

The components of the non-current deferred tax assets/(liabilities) were as follows:

	At December 31,	
	2018	2017
Gross noncurrent deferred tax assets (liabilities)		
Allowance for bad debts	$4,828	$3,792
Accrued rent	1,833	1,723
Accrued benefits	-	105
Stock-based compensation	18	387
163J interest limitation	19	-
Depreciation	16,259	15,520
Goodwill	(98)	594
Other intangibles	211	291
Pension plan liabilities	1,163	1,221
Net operating loss carryforwards	17,927	17,367
AMT credit	424	424
Gross noncurrent deferred tax assets, net	42,584	41,424
Less valuation allowance	(42,160)	(41,000)
Noncurrent deferred tax assets, net	$424	$424

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence was the cumulative losses incurred by the Company in recent years.

On the basis of this evaluation the Company believes it is not more likely than not that it will realize its deferred tax assets except the deferred tax assets for AMT credits which can be realized to offset regular tax liability or refunded. As a result, as of December 31, 2018 and 2017, the Company has recorded a valuation allowance of $42.2 million and $41.0 million, respectively, against its net deferred tax assets. With respect to AMT credit deferred tax asset, it is expected that 50% will be refunded upon the filings of Company's 2018 federal Corporate income tax return is filed.

As of December 31, 2018, the Company has net operating loss (“NOL”) carryforwards of $60.3 million. Of the $60.3 million NOL carryforwards, $52.7 million will start expiring in 2029 and ending in 2038 if unused. The net operating losses of $7.6 million generated in current year can be carried over indefinitely under the Tax Act. Utilization of the NOL carryforwards may be subject to a substantial limitation due to ownership change limitations that may occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL and tax credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups.

As of December 31, 2018, 2017 and 2016, the Company no longer has any liability for uncertain tax positions. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The Company is no longer subject to U.S. federal income tax examinations for years before 2015 and, generally, is no longer subject to state and local income tax examinations by tax authorities for years before 2014.

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12. FAIR VALUE

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

	December 31, 2018				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$17,571	$ 17,571	$ -	$ -	$17,571
Restricted cash	28,375	28,375	-	-	28,375
Prepaid expenses and other current assets	2,461	-	2,461	-	2,461
Financial Liabilities:					
Accrued expenses	$10,605	$ -	$ 10,605	$ -	$10,605
Other short term liabilities	2,324	-	2,324	-	2,324
Credit facility	48,769	-	43,096	-	43,096

	December 31, 2017				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$14,563	$ 14,563	$ -	$ -	$14,563
Restricted cash	39,991	39,991	-	-	39,991
Prepaid expenses and other current assets	2,352	-	2,352	-	2,352
Financial Liabilities:					
Accrued expenses	$11,771	$ -	$ 11,771	$ -	$11,771
Other short term liabilities	558	-	558	-	558
Credit facility	52,593	-	47,200	-	47,200

We estimate fair value of Facility 1 and Facility 2 of the revolving credit facility based on a present value analysis utilizing aggregate market yields obtained from independent pricing sources for similar financial instruments. The carrying value for Facility 3 of the revolving credit facility approximates fair value due to the fact that the borrowings were made in close proximity to December 31, 2017.

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

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

13. SEGMENT REPORTING

The for-profit education industry has been impacted by numerous regulatory changes, a changing economy and an onslaught of negative media attention. As a result of these challenges, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over ten locations and exited its online business. In 2017, the Company completed the teach-out of its Center City Philadelphia, Pennsylvania; Northeast Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools. All of these schools were previously included in our HOPS segment and as of December 31, 2017, they have all been closed.

In August 2018, the Company decided to cease operations, effective December 31, 2018, of its Lincoln College of New England ("LCNE") campus at Southington, Connecticut. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of December 31, 2018. The Company completed the teach-out and exited the LCNE campus on December 31, 2018.

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In the past, we offered any combination of programs at any campus. We have shifted our focus to program offerings that create greater differentiation among campuses and promote attainment of excellence to attract more students and gain market share. Also, strategically, we began offering continuing education training to select employers who hire our graduates and this is best achieved at campuses focused on the applicable profession.

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

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

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

Transitional – The Transitional segment refers to campuses that are being taught-out and closed and operations that are being phased out. The schools in the Transitional segment employ a gradual teach-out process that enables the schools to continue to operate to allow their current students to complete their course of study. These schools are no longer enrolling new students.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus's geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. Campuses in the Transitional segment have been subject to this process and have been strategically identified for closure.

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

For all prior periods presented, the Company reclassified its Marietta, Georgia campus from the HOPS segment to the Transportation and Skilled Trades segment. This reclassification occurred to address how the Company evaluates performance and allocates resources and was approved by the Company's Board of Directors.

Summary financial information by reporting segment is as follows:

	For the Year Ended December 31,								
	Revenue						Operating (Loss) Income		
	2018	% of Total	2017	% of Total	2016	% of Total	2018	2017	2016
Transportation and Skilled Trades	$185,263	70.4 %	$181,328	69.2 %	$182,276	63.8 %	$17,661	$17,795	$21,578

Healthcare and Other Professions	72,135	27.4 %	63,641	24.3 %	62,870	22.0 %	6,469	3,937	(9,392)
Transitional	5,802	2.3 %	16,884	6.4 %	40,413	14.2 %	(5,994)	(6,926)	(16,995)
Corporate	-	0.0 %	-	0.0 %	-	0.0 %	(22,090)	(19,522)	(24,105)
Total	$263,200	100 %	$261,853	100 %	$285,559	100 %	$(3,954)	$(4,716)	$(28,914)

	Total Assets December 31, 2018	December 31, 2017
Transportation and Skilled Trades	$92,070	$ 81,751
Healthcare and Other Professions	14,078	8,297
Transitional	527	4,812
Corporate	39,363	60,353
Total	$146,038	$ 155,213

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14. COMMITMENTS AND CONTINGENCIES

Lease Commitments—The Company leases office premises, educational facilities and various equipment for varying periods through the year 2030 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases) as follows:

Year Ending December 31,	Operating Leases
2019	$ 16,939
2020	14,183
2021	10,708
2022	8,180
2023	5,811
Thereafter	17,610
	$ 73,431

Rent expense, included in operating expenses in the accompanying consolidated statements of operations for the three years ended December 31, 2018, 2017 and 2016 is $17.8 million, $17.4 million and $20.7 million, respectively.

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

Student Loans—At December 31, 2018, the Company had outstanding net loan commitments to its students to assist them in financing their education of approximately $46.2 million, net of interest.

Vendor Relationship—The Company is party to an agreement with Matco Tools (“Matco”), which expires on July 31, 2019. The Company has agreed to grant Matco exclusive access to 12 campuses and its students and instructors. This exclusivity includes but is not limited to, all other tool manufacturers and/or tool distributors, by whatever means, during the term of the agreement. Under the agreement, the Company will be provided, on an advance commission basis, credits which are redeemable in branded tools, tools storage, equipment, and diagnostics products over the term of the contract.

Executive Employment Agreements—The Company entered into employment contracts with key executives that provide for continued salary payments if the executives are terminated for reasons other than cause, as defined in the agreements. The future employment contract commitments for such employees were approximately $3.1 million at December 31, 2018.

Change in Control Agreements—In the event of a change of control several key executives will receive continued salary payments based on their employment agreements.

Surety Bonds—Each of the Company’s campuses must be authorized by the applicable state education agency in which the campus is located to operate and to grant degrees, diplomas or certificates to its students. The campuses are subject to extensive, ongoing regulation by each of these states. In addition, the Company’s campuses are required to be authorized by the applicable state education agencies of certain other states in which the campuses recruit students. The Company is required to post surety bonds on behalf of its campuses and education representatives with multiple states to maintain authorization to conduct its business. At December 31, 2018, the Company has posted surety bonds in the total amount of approximately $12.7 million.

15. RELATED PARTY

The Company has an agreement with Matco Tools, whereby Matco will provide to the Company, on an advance commission basis, credits in Matco-branded tools, tool storage, equipment, and diagnostics products. The chief executive officer of the parent company of Matco is considered an immediate family member of one of the Company's board members. The amount of the Company's purchases from this third party were $1.8 million and $2.4 million for the year ended December 31, 2018 and 2017, respectively. Management believes that its agreement with Matco is an arm's length transaction and on similar terms as would have been obtained from unaffiliated third parties.

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16. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables have been updated to reflect changes in discontinued operations. Quarterly financial information for 2018 and 2017 is as follows:

2018	Quarter First	Second	Third	Fourth
Revenue	$61,889	$61,120	$70,078	$70,113
Net (loss) income	(6,874)	(4,104)	(600)	5,033
Basic				
Net (loss) earnings per share	$(0.28)	$(0.17)	$(0.02)	$0.21
Diluted				
Net (loss) earnings per share	$(0.28)	$(0.17)	$(0.02)	$0.20
Weighted average number of common shares outstanding:				
Basic	24,138	24,486	24,533	24,533
Diluted	24,138	24,486	24,533	24,562

2017	Quarter First	Second	Third	Fourth
Revenue	$65,279	$61,865	$67,308	$67,401
Net (loss) income	(10,929)	(6,771)	(1,490)	7,707
Basic				
Net (loss) earnings per share	$(0.46)	$(0.28)	$(0.06)	$0.32
Diluted				
Net (loss) earnings per share	$(0.46)	$(0.28)	$(0.06)	$0.31
Weighted average number of common shares outstanding:				
Basic	23,609	23,962	24,024	24,025
Diluted	23,609	23,962	24,024	24,590

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LINCOLN EDUCATIONAL SERVICES CORPORATION

Schedule II—Valuation and Qualifying Accounts

(in thousands)

Description	Balance at Beginning of Period	Charged to Expense	Accounts Written-off	Balance at End of Period
Allowance accounts for the year ended:				
December 31, 2018 Student receivable allowance	$ 13,784	$ 17,705	$ (14,496)	$ 16,993
December 31, 2017 Student receivable allowance	$ 14,794	$ 13,720	$ (14,730)	$ 13,784
December 31, 2016 Student receivable allowance	$ 14,074	$ 14,592	$ (13,872)	$ 14,794

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Exhibit Index

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated March 14, 2017, between New England Institute of Technology at Palm Beach, Inc. and Tambone Companies, LLC, as amended by First Amendment to Purchase and Sale Agreement dated as of April 18, 2017, and as further amended by Second Amendment to Purchase and Sale Agreement dated as of May 12, 2017 (incorporated by reference to the Company's Form 8-K filed August 16, 2017).
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form S-1/A (Registration No. 333-123644) filed June 7, 2005).
3.2*	Bylaws of the Company, as amended on March 8, 2019
4.1	Specimen Stock Certificate evidencing shares of common stock (Incorporated by reference to the Company's Registration Statement on Form S-1/A (Registration No. 333-123644) filed June 21, 2005).
10.1	Credit Agreement, dated as of March 31, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed April 6, 2017).
10.2	Credit Agreement, dated as of April 28, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed May 4, 2017).
10.3	First Amendment to Credit Agreement, dated as of November 29, 2017, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed December 1, 2017)
10.4	Second Amendment to Credit Agreement, dated as of February 23, 2018, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed February 26, 2018)
10.5	Third Amendment to Credit Agreement, dated as of July 11, 2018, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (Incorporated by reference to the Company's Form 8-K filed July 13, 2018).
10.6*	Fourth Amendment to Credit Agreement, dated as of March 6, 2019, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank
10.7	Commercial Contract, dated as of July 9, 2018, between New England Institute of Technology at Palm Beach, Inc. and Elite Property Enterprise, LLC (Incorporated by reference to the Company's Form 8-K filed July 13, 2018).
10.8	Employment Agreement, dated as of November 8, 2017, between the Company and Scott M. Shaw (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).
10.9	Employment Agreement, dated as of November 7, 2018, between the Company and Scott M. Shaw (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).

10.10	Employment Agreement, dated as of November 8, 2017, between the Company and Brian K. Meyers (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).
10.11	Employment Agreement, dated as of November 7, 2018, between the Company and Brian K. Meyers (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).
10.12	Change in Control Agreement, dated as of November 8, 2017, between the Company and Deborah Ramentol (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 13, 2017).
10.13	Change in Control Agreement, dated as of November 7, 2018, between the Company and Stephen M. Buchenot (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed November 9, 2018).
10.14	Lincoln Educational Services Corporation Amended and Restated 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Form 8-K filed May 6, 2013).

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10.15	Lincoln Educational Services Corporation Amended and Restated 2005 Non-Employee Directors Restricted Stock Plan (Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-211213) filed May 6, 2016).
10.16	Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-123644) filed March 29, 2005).
10.17	Form of Stock Option Agreement under our 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
10.18	Form of Restricted Stock Agreement under our 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
10.19	Form of Performance-Based Restricted Stock Award Agreement under our Amended & Restated 2005 Long-Term Incentive Plan (Incorporated by reference to the Company's Form 8-K filed May 5, 2011).
21.1*	Subsidiaries of the Company.
23*	Consent of Independent Registered Public Accounting Firm.
24*	Power of Attorney (included on the Signatures page of this Form 10-K).
31.1 *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 *	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements from Lincoln Educational Services Corporation's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Comprehensive (Loss) Income, (v) Consolidated Statement of Changes in Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

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* Filed herewith.

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