

LINCOLN EDUCATIONAL SERVICES CORP
Form 10-K
March 11, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2009

Commission File Number 000-51371

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

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

57-1150621
(IRS Employer Identification No.)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value per share

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the 11,373,470 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was \$238,046,727. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$20.93 per share on June 30, 2009. Shares of common stock held by executive officers and directors and persons who own 5% or more of outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not a determination for any other purpose.

The number of shares of the registrant's common stock outstanding as of March 9, 2010 was 25,924,518.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2010 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. With the exception of those portions that are specifically incorporated by reference in this Annual Report on Form 10-K, such Proxy Statement shall not be deemed filed as part of this Report or incorporated by reference herein.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

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

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

- our failure to comply with the extensive regulatory framework applicable to our industry or our failure to obtain timely regulatory approvals in connection with a change of control of our company or acquisitions;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
 - risks associated with the opening of new campuses;
 - risks associated with integration of acquired schools;
 - industry competition;
 - our ability to continue to execute our growth strategies;
 - conditions and trends in our industry;
 - general economic conditions; and
- other factors discussed under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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

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PART I.

ITEM 1. BUSINESS

OVERVIEW

We are a leading provider of diversified career-oriented post-secondary education as measured by total enrollment. As of December 31, 2009, we operated 43 campuses in 17 states. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, hospitality services and business and information technology. For the year ended December 31, 2009, our health science program, our automotive technology program, our skilled trades program, our hospitality services program and our business and information technology program accounted for approximately 37%, 31%, 13%, 10%, and 9%, respectively, of our average enrollment. We had 29,340 students enrolled as of December 31, 2009 and our average enrollment for the year ended December 31, 2009 was 27,808 students, an increase of 39.0% from our average enrollment of 20,006 for the year ended December 31, 2008. For the year ended December 31, 2009, our revenues were \$552.5 million, which represents an increase of 46.6% from the year ended December 31, 2008. Excluding our acquisitions of Lincoln College of New England (formerly known as Briarwood College) or BRI on December 1, 2008, six of the seven schools comprising Baran Institute of Technology or BAR on January 20, 2009 and Clemens College, the seventh BAR school, or Clemens on April 20, 2009 or collectively, the Acquisitions, our revenues and average enrollment would have increased by 31.5% and 26.5%, respectively, compared to the year ended December 31, 2008. For the year ended December 31, 2008, our revenues were \$376.9 million, which represented a 15.0% increase from the year ended December 31, 2007. Excluding our acquisition of BRI, our revenues and average enrollment for 2008 would have increased by 14.7% and 13.0%, respectively, compared to the year ended December 31, 2007.

All of our schools operate under the Lincoln Technical Institute, Lincoln College of Technology and Lincoln College of New England brand names, except for Nashville Auto-Diesel College, or NADC, Southwestern College, Clemens College and Euphoria Institute of Beauty Arts and Sciences, which continue to operate under their previous names. Most of our campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. 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 nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education, or 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.

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

Each of our schools is an operating segment. Our operating segments have been aggregated into one reportable segment because, in our judgment, the operating segments have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics.

DISCONTINUED OPERATIONS

On July 31, 2007, our Board of Directors approved a plan to cease operations at three of our campuses. As a result of that decision, we recognized a non-cash impairment charge related to goodwill at these three campuses of approximately \$2.1 million as of June 30, 2007. Additionally, we determined that certain long-lived assets would not be recoverable at June 30, 2007 and recorded a non-cash charge of \$0.9 million to reduce the carrying value of these assets to their estimated fair value.

As of September 30, 2007, all operations had ceased at these campuses, and accordingly, the results of operations of these campuses have been reflected in the accompanying statements of operations as “Discontinued Operations” for all periods presented.

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The following amounts relate to discontinued operations at these three campuses (in thousands):

| | Year Ended | |
|-----------------------------------|-------------------|-----------|
| | December 31, 2007 | |
| Revenues | \$ | 4,230 |
| Operating expenses | | (13,760) |
| | | (9,530) |
| Benefit for income taxes | | (4,043) |
| Loss from discontinued operations | \$ | (5,487) |

AVAILABLE INFORMATION

Our website is www.lincolnedu.com. We make available on this website our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, annual proxy statement on Schedule 14A and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. You can access this information on our website, free of charge, by clicking on "Investor Relations." The information contained on or connected to our website is not a part of this Annual Report on Form 10-K.

BUSINESS STRATEGY

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

Expand Existing Areas of Study and Existing Facilities. We believe we can leverage our operations to expand our program offerings in existing areas of study and expand into new areas of study to capitalize on demand from students and employers in our target markets. Whenever possible we seek to replicate programs across our campuses. We also expect to continue expanding some of our existing facilities and relocating other facilities to expand capacity. In 2008 and 2009, we increased capacity at four of our Southwestern College campuses and at our campus in Melrose Park, Illinois, and moved into a new and larger campus in Brockton, Massachusetts. In 2009, we acquired a property which is currently being expanded and which will serve as the new home for our Lincoln College of Technology in Denver, Colorado.

Maximize Utilization of Existing Facilities. We are focused on improving capacity utilization of existing facilities through increased enrollments and the introduction of new programs. We expect to continue investing in marketing, recruiting and retention resources to increase enrollment.

Expand Geographic Presence. We believe that we can leverage our marketing and recruiting programs by opening additional campuses in selected markets and obtaining greater market penetration. For example, in 2008, we expanded our presence in Las Vegas with the opening of our third Euphoria campus in the north end of Las Vegas which will enable us to better serve that market. In 2009, we expanded our presence in Ohio by opening our sixth Southwestern College in Toledo. We believe we can also increase our student enrollments by entering selected new geographic markets that we believe have significant growth potential and where we can leverage our reputation and operating expertise.

Pursue Strategic Acquisitions. We continue to evaluate acquisition candidates. In evaluating potential acquisitions, we seek to identify schools that provide the potential for program replication at our existing campuses, expand our program and degree offerings, and extend our presence into markets with attractive growth opportunities. For example, during the first and second quarters of 2009, we completed the acquisition of BAR, which consists of seven campuses serving 2,273 students as of December 31, 2009 and offers associate's degree and diploma programs in the fields of automotive, skilled trades, health sciences and culinary arts.

Expand Market. We believe that we can enter new markets and broaden the Lincoln brand by operating regionally accredited schools that offer associate's and bachelor's degrees, both on ground and online. To launch this effort we acquired BRI on December 1, 2008. BRI operates one campus in Southington, Connecticut and is regionally accredited by the New England Association of Schools and Colleges, and currently offers two bachelor's degree programs and 31 associate's degree programs to 668 students as of December 31, 2009 from Connecticut and surrounding states.

Expand Online Programs. We offer online programs with a view towards capitalizing on the growing demand for, and flexibility provided by, online education alternatives. In 2008, we launched online associate's and bachelor's degree programs under our national accreditation. We believe that our online programs are an attractive option for students without the geographic or financial flexibility to enroll in campus-based programs and will continue to broaden our market. Furthermore, with the addition of BRI we expect to offer regionally accredited online degree programs that we believe will make our online offerings more attractive and competitive compared to those of our peers.

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PROGRAMS AND AREAS OF STUDY

We structure our program offerings to provide our students with a practical, career-oriented education and position them for attractive entry-level job opportunities in their chosen fields. Our diploma/certificate programs typically take between 16 to 105 weeks to complete, with tuition ranging from \$7,000 to \$35,000. Our associate's degree programs typically take between 47 to 92 weeks to complete, with tuition ranging from \$18,000 to \$33,000. Our bachelor's degree programs typically take between 132 and 193 weeks to complete, with tuition ranging from \$55,000 to \$70,000. As of December 31, 2009, all of our schools offer diploma and certificate programs, 22 of our schools are currently approved to offer associate's degree programs and three schools are approved to offer a bachelor's degree program. In order to accommodate the schedules of our students and maximize classroom utilization, we typically offer courses four to five days a week in three shifts per day and start new classes every month. Also for those students who do not live near one of our campuses or whose schedules prevent them from attending school we offer several programs online. We update and expand our programs frequently to reflect the latest technological advances in the field, providing our students with the specific skills and knowledge required in the current marketplace. Classroom instruction combines lectures and demonstrations by our experienced faculty with comprehensive hands-on laboratory exercises in simulated workplace environments.

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The following table lists the programs offered as of December 31, 2009 with the average number of students enrolled in each area of study for the year ended December 31, 2009:

| Area of Study | Programs Offered | | | Average Enrollment | Percent of Total Enrollment | |
|-----------------|------------------|--|--|--------------------|-----------------------------|---|
| | Bachelor's | Associate | Diploma and Certificate | | | % |
| Health Sciences | - | Medical Assisting Technology, Medical Assisting & Administrative Technology, Dental Office Management, Child Development, Health Information Technology, Medical Office Management, Medical Assistant, Mortuary Science, Nuclear Medicine Technology, Occupational Therapy Assistant, Dental Hygiene, Dental Administrative Assistant, Surgical Technologist, Advanced Medical Coding & Billing, Pharmacy Technician | Medical Administrative Assistant, Medical Assistant, Pharmacy Technician, Medical Coding & Billing, Dental Assistant, Licensed Practical Nursing, Phlebotomy, Nuclear Medicine Technology, Medical Assistant w/Basic X-ray, Basic X-Ray Technician, Patient Care Technician, Surgical Technologist | 10,220 | 37 | % |
| Automotive | - | Automotive Technology, MasterCertified Auto Service Management, Collision Repair & Refinishing Service Management, Diesel Technology, | Automotive Mechanics, Master Certified Automotive Technology, Collision Repair & Refinishing Technology, Diesel & Truck Mechanics, Diesel Technology, | 8,676 | 31 | % |

| | | | | | | |
|----------------|---|--|---|-------|----|---|
| | | Master Certified Diesel & Truck Service Management | Master Certified Diesel & Truck Technology, Master Certified Automotive w/Diesel Technology, Motorcycle Technology | | | |
| Skilled Trades | - | Mechanical / Architectural Drafting & CAD Technology, Electronic Engineering Technology, HVAC, Electronics Systems Service Management, Security Systems Service Management | Electrical Technology, Electronics Engineering Technology, Electronics Systems Technician, Air Conditioning Refridgeration & Heating Technology, Electrician, Welding Technology, Security Systems Technician | 3,526 | 13 | % |

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| Area of Study | Program Offered (Continued) | | | Average Enrollment | Percent of Total Enrollment | |
|-------------------------------------|---|---|---|--------------------|-----------------------------|---|
| | Bachelor's | Associate | Diploma and Certificate | | | % |
| Hospitality Services | Culinary Arts Management | Culinary Arts, Salon Management, Food and Beverage, International Baking and Pastry, Culinary Management, Hotel Restaurant Management, Dietetic Technician, Travel and Tourism, Hospitality Management | Culinary Arts, Advanced Culinary Arts, Baking & Pastry Essentials, Cosmetology, Aesthetics, Therapeutic Massage & Bodywork Technician, Advanced Italian Culinary Arts | 2,720 | 10 | % |
| Business and Information Technology | Business Management, Business Marketing, Criminal Justice, Funeral Service Management, Integrated Marketing Communication & Design, Information Mangement & Security, Human Resource Management | PC Systems & Networking Technician, Business Administration, Criminal Justice, Network Communications & Information Systems, Business Management, Business Marketing, Human Resource Management, Accounting Technology, Broadcasting and Communications, Fashion Merchandising, Paralegal, Graphic Design, Web Design | PC Support Technician, Criminal Justice, Network Communications and Information Systems, Business Office Technology | 2,666 | 9 | % |
| Total: | | | | 27,808 | 100 | % |

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Health Sciences. For the year ended December 31, 2009, health sciences represented our largest area of study, representing 37% of our total average student enrollment. Our health science programs are 24 to 92 weeks in length, with tuition rates of \$7,000 to \$30,000. Graduates of our programs are qualified to obtain positions such as licensed practical nurse, medical administrative assistant, EKG technician, claims examiner and pharmacy technician. Our graduates are employed by a wide variety of employers, including hospitals, laboratories, insurance companies, doctors' offices and pharmacies. Our medical assistant and medical administrative assistant programs are our largest health science programs.

As of December 31, 2009, we offered health science programs at 27 schools, including six Southwestern College schools, BRI, and 20 Lincoln College of Technology and Lincoln Technical Institute schools.

Automotive Technology. Automotive technology represents our second largest area of study, with 31% of our total average student enrollment for the year ended December 31, 2009. Our automotive technology programs are 24 to 105 weeks in length, with tuition rates of \$10,000 to \$35,000. We believe we are a leading provider of automotive technology education in each of our local markets. Graduates of our programs are qualified to obtain entry level employment ranging from positions as technicians and mechanics to various apprentice level positions. Our graduates are employed by a wide variety of employers, ranging from automotive and diesel dealers, independent auto body paint and repair shops, to trucking and construction companies.

As of December 31, 2009, each of our Lincoln Technical Institute schools, with the exception of our Allentown, Pennsylvania campus, offers programs in automotive technology and most of these schools offer other technical programs. Our campuses in East Windsor, Connecticut; Nashville, Tennessee; Grand Prairie, Texas; Indianapolis, Indiana; and Denver Colorado are destination schools, attracting students throughout the United States and, in some cases, from abroad.

Skilled Trades. For the year ended December 31, 2009, 13% of our total average student enrollment was in our skilled trades programs. Our skilled trades programs are 41 to 91 weeks in length, with tuition rates of \$16,000 to \$30,000. Our skilled trades programs include electrician, heating, ventilation and air conditioning repair, welding, drafting and computer-aided design and electronic system technician. Graduates of our programs are qualified to obtain entry level employment positions such as electrician, cable, wiring and HVAC installer and servicer and drafting technician. Our graduates are employed by a wide variety of employers, including residential and commercial construction, telecommunications installation companies and architectural firms.

In the first quarter of 2008, we launched our first welding program. This program was developed based on the National Center for Construction Education and Research ("NCCER") curriculum. NCCER is a not-for-profit education foundation created to help address the critical workforce shortage facing the construction industry and to develop industry-driven standardized craft training programs with portable credentials.

As of December 31, 2009, we offered skilled trades programs at 14 of our 29 Lincoln Technical Institute and Lincoln College of Technology campuses.

Hospitality Services. For the year ended December 31, 2009, 10% of our total average student enrollment was in our hospitality services programs. Our hospitality services programs are 16 to 132 weeks in length, with tuition rates of \$9,000 to \$55,000. Our spa programs include therapeutic massage, cosmetology and aesthetics. Graduates work in salons, spas, cruise ships or are self-employed. We offer massage programs at 15 campuses and cosmetology programs at five campuses. Our culinary graduates are employed by restaurants, hotels, cruise ships and bakeries. As of December 31, 2009, we offered culinary programs at six Lincoln Culinary Institutes.

Business and Information Technology. For the year ended December 31, 2009, 9% of our total average student enrollment was in our business and information technology programs, which include our diploma and degree criminal justice programs. Our business and information technology programs are 30 to 193 weeks in length, with tuition rates of \$11,000 to \$70,000. We have focused our current IT program offerings on those that are most in demand, such as our PC systems technician, network systems administrator and business administration specialist programs. Our IT and business graduates work in entry level positions for both small and large corporations. Our criminal justice graduates work in the security industry and for various government agencies and departments. As of December 31, 2009, we offered these programs at 20 of our campuses.

MARKETING AND STUDENT RECRUITMENT

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

Marketing and Advertising. Our marketing program utilizes integrated advertising such as the Internet, television, and various print media, direct mail, and event marketing campaigns. These campaigns are enhanced by student and alumni referrals. Internet lead generation is our most successful medium, built upon successful search engine optimization and specific keywords. Our website leads incorporate integrated campaigns that drive prospects to the website for lead capture. Our internal systems enable us to closely monitor and track the effectiveness of each advertisement on a daily or weekly basis and make adjustments accordingly to enhance efficiency and limit our student acquisition costs.

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Referrals. Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented over 17% of our new enrollments. Our school administrators actively work with our current students to encourage them to recommend our programs to potential students. We continue to build strong relationships with high school guidance counselors and instructors by offering annual seminars at our training facilities to further educate these individuals on the strengths of our programs. Graduates who have gone on to enjoy success in the workforce frequently recommend our programs, as do local business owners who are pleased with the performance of our graduates whom they have hired.

Recruiting. Our recruiting efforts are conducted by a group of approximately 475 field and campus-based representatives who meet directly with potential students during presentations conducted at high schools, in the potential student's home or during a visit to one of our campuses.

Field-Based Recruiting. Our field-based recruiting representatives make presentations at high schools to attract students to both our local and destination campuses. Our field-based representatives also visit directly with potential students in their homes. During 2009, we recruited approximately 20% of our students directly out of high school.

Campus-Recruiting. When a potential student is identified through our marketing and recruiting efforts, one of our representatives is paired with the potential student to follow up on an individual basis. Our media advertisements contain a unique toll-free number and our telephone system automatically directs the call to the campus nearest to the caller. At this point, a recruiting representative will respond to the inquiry, typically within 24 hours. The representatives are trained to explain in detail the opportunities available within each program and schedule an appointment for the potential student to visit the school and tour the school's facilities.

STUDENT ADMISSIONS, ENROLLMENT AND RETENTION

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

Enrollment. We enroll students continuously throughout the year, with our largest classes enrolling in late summer or early fall following high school graduation. We had 29,340 students enrolled as of December 31, 2009 and our average enrollment for the year ended December 31, 2009 was 27,808 students, an increase of 39.0% from December 31, 2008. Excluding the Acquisitions, our average student enrollment increased by 26.5%. Our average student enrollment for the year ended December 31, 2008 was 20,006 students, an increase of 13.1% from December 31, 2007. Excluding our acquisition of BRI in December 2008, our 2008 average student enrollment increased by 13.0%.

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

JOB PLACEMENT

We believe that securing employment for our graduates is critical to our ability to attract high quality students. In addition, high job placement rates result in low student loan default rates, an important requirement for continued participation in Title IV Programs. See "Regulatory Environment—Regulation of Federal Student Financial Aid Programs." Accordingly, we dedicate significant resources to maintaining an effective graduate placement program.

Our non-destination schools work closely with local employers to ensure that we are training students with skills that employers need. Each school has an advisory council made up of local employers who provide us with direct feedback on how well we are preparing our students to succeed in the workplace. This enables us to tailor our programs to the market. The placement staff in each of our destination schools maintains databases of potential employers throughout the country, allowing us to place students in their career field upon graduation. We also have internship programs that provide our students with opportunities to work with employers prior to graduation. For example, some of the students in our automotive programs have the opportunity to complete a portion of their hands-on training while working with a potential employer. In addition, some of our allied health students are required to participate in an internship program during which they work in the field as part of their career training. Students that participate in these programs often go on to work for the same business upon graduation. We also assist students with resume writing, interviewing and other job search skills.

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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, 2009, we had approximately 4,250 employees, including 1,038 full-time faculty and 834 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 2010 through 2016. We believe that we generally have good relationships with these unions and 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 and traditional four-year colleges or universities is limited. Thus, our main competitors are other for-profit, career-oriented schools, as well as public and private two-year junior and community colleges. Competition is generally based on location, the type of programs offered, the quality of instruction, placement rates, reputation, recruiting and tuition rates. Public institutions are generally able to charge lower tuition than our schools, due in part to government subsidies and other financial sources not available to for-profit schools. In addition, some of our 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 success in placing students with employers.

We compete with other institutions that are eligible to receive Title IV funding. This includes four-year, not-for-profit public and private colleges and universities, community colleges and all for-profit institutions whether they are four years, two years or less. Our competition differs in each market depending on the curriculum that we offer. For example, a school offering automotive, allied health and skilled trades programs will have a different group of competitors than a school offering allied health, business/IT and skilled trades. Also, because schools can add new programs within six to twelve months, new competition can emerge relatively quickly. Moreover, with the introduction of online learning, the number of competitors in each market has increased because students can now stay local but learn from a non-local institution.

Notwithstanding the above, we mainly compete with community colleges and other career schools, both for-profit and not-for-profit. We focus on programs that are in high demand. We compete against community colleges by seeking to offer more frequent start dates, more flexible hours, better instructional resources, more hands on training, shorter program length and greater assistance with job placement. We compete against the other career schools by seeking to offer a higher quality of education, higher quality instructional equipment and a better overall value. On average, each of our schools has at least three direct competitors and at least a dozen indirect competitors. As we continue to add courses and degree programs, our competitors within a given market increase and thus we face increased competition.

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 effect on our operations.

REGULATORY ENVIRONMENT

Students attending our schools finance their education through a combination of family contributions, individual resources, private loans and federal financial aid programs. Each of our schools participates in the federal programs of student financial aid authorized under the Title IV Programs, which are administered by the DOE. For the year ended December 31, 2009, approximately 81% (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. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically use the funds received from the federal financial aid programs to pay their tuition and fees. The transfer of funds from the financial aid programs are to the student, who then applies those funds to the cost of his or her education.

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In connection with the students' receipt of federal financial aid, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Title IV Programs, and the regulations issued thereafter by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that each of our schools must satisfy in order to participate in the various federal student financial aid programs. To participate in the Title IV Programs, a school must be authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. The DOE will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the Higher Education Act of 1965, as amended, or HEA, and the DOE's extensive regulations regarding institutional eligibility. 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.

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. Some states have sought to assert jurisdiction over online educational institutions that offer educational services to residents in the state, notwithstanding the lack of a physical location in that state. 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 material adverse effect 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. 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 \$14.2 million. These bonds are backed by \$2.4 million of letters of credit.

If any of our schools fail to comply with state licensing requirements, they are subject to the loss of state licensure or authorization. If any one of our schools lost its authorization from the education agency of the state in which the school is located, that school and its related main campus and/or additional locations would lose its eligibility to participate in Title IV Programs, be unable to offer its programs and we could be forced to close that school. If one of our schools lost its state authorization from a state other than the state in which the school is located, the school would not be able to recruit students in that state. As of December 31, 2009, we believe that each of our schools is in substantial compliance with the applicable education agency requirements in each state in which it is physically located.

We were notified by the State of Connecticut Department of Higher Education, or the DHE, that each of Lincoln Technical Institute—East Windsor, or “East Windsor”, and Lincoln Technical Institute—Hartford, or “Hartford”, two of the schools we acquired in January 2009 in connection with our acquisition of BAR, did not meet the DHE’s fiscal viability standards requiring sufficient liquid assets or other evidence of fiscal soundness for the year ended December 31, 2008, which preceded our acquisition of BAR. Specifically, according to the DHE’s calculations, East Windsor’s composite score for 2008 was -1.0 and Hartford’s composite score was -1.0, both of which are less than the 1.5 required by the DHE. The DHE held a compliance meeting in September 2009 which was attended by certain of our personnel. At this meeting, we informed the DHE that we believe that each school would have met or exceeded the DHE requirement if its financial results had been consolidated with our financial results for the year ended December 31, 2008. We have been informed that the DHE will not make its determination until we submit our 2009 financial statements. If the DHE’s determination stands, the two schools may be required to submit letters of credit to the DHE or be subject to revocation of authorizations to operate as a for-profit provider, loss of federal funding, limitations on the operations on their business, injunctions or fines, money damages, or other penalties, including being placed on probation for a period of up to one year.

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

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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, 2009, nineteen of our campuses are accredited by the Accrediting Commission of Career Schools and Colleges or ACCSC; twenty of our campuses are accredited by the Accrediting Council for Independent Colleges and Schools or ACICS; two of our campuses are accredited by the New England Association of Schools and Colleges or NEASC; and two of our campuses are accredited by Accrediting Bureau of Health Education Schools or ABHES. All of these accrediting commissions are recognized by the DOE. The following is a list of the dates on which each campus was accredited by its accrediting commission and the date by which its accreditation must be renewed.

Accrediting Commission of Career Schools and Colleges Reaccreditation Dates

| School | Last Accreditation | |
|----------------------|--------------------|---------------------------|
| | Letter | Next Accreditation |
| Philadelphia, PA | December 5, 2008 | May 1, 2013 |
| Union, NJ | December 9, 2009 | February 1, 2014 |
| Mahwah, NJ* | December 9, 2004 | August 1, 2009***** |
| Melrose Park, IL | March 11, 2005 | November 1, 2009***** |
| Denver, CO | September 8, 2006 | February 1, 2011 |
| Columbia, MD | March 13, 2007 | February 1, 2012 |
| Grand Prairie, TX | May 29, 2007 | August 1, 2011 |
| Allentown, PA | March 7, 2008 | January 1, 2012 |
| Nashville, TN | September 5, 2008 | May 1, 2012 |
| Indianapolis, IN | December 5, 2008 | November 1, 2012 |
| New Britain, CT | September 5, 2008 | January 1, 2013 |
| Shelton, CT** | December 9, 2009 | September 1, 2013 |
| Cromwell, CT** | March 13, 2007 | November 1, 2011 |
| Hamden, CT** | September 7, 2007 | July 1, 2012 |
| Queens, NY* | September 5, 2008 | June 1, 2012 |
| Hartford, CT | June 3, 2005 | November 1, 2009 ***** |
| Suffield, CT*** | August 1, 2007 | August 1, 2012 |
| East Windsor, CT | September 5, 2008 | February 1, 2013 |
| South Plainfield, NJ | September 11, 2009 | August 1, 2014 |

- * Branch campus of main campus in Union, NJ
 ** Branch campus of main campus in New Britain, CT
 *** Branch campus of main campus in Hartford, CT
 ***** Currently undergoing re-accreditation

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Accrediting Council for Independent Colleges and Schools Reaccreditation Dates

| School | Last Accreditation | |
|-------------------------------------|--------------------|--------------------|
| | Letter | Next Accreditation |
| Brockton, MA**** | December 16, 2008 | December 31, 2014 |
| Lincoln, RI | December 16, 2008 | December 31, 2014 |
| Lowell, MA** | December 16, 2008 | December 31, 2014 |
| Somerville, MA | December 16, 2008 | December 31, 2014 |
| Philadelphia (Center City), PA* | April 23, 2007 | December 31, 2012 |
| Edison, NJ | April 23, 2007 | December 31, 2012 |
| Marietta, GA**** | December 16, 2008 | December 31, 2014 |
| Mt. Laurel, NJ* | April 23, 2007 | December 31, 2012 |
| Paramus, NJ* | April 23, 2007 | December 31, 2012 |
| Philadelphia (Northeast), PA* | April 23, 2007 | December 31, 2012 |
| Dayton, OH | August 13, 2009 | December 31, 2015 |
| Cincinnati (Vine Street), OH*** | August 13, 2009 | December 31, 2015 |
| Cincinnati (Northland Blvd.), OH*** | August 13, 2009 | December 31, 2015 |
| Franklin, OH*** | August 13, 2009 | December 31, 2015 |
| Florence, KY*** | August 13, 2009 | December 31, 2015 |
| Toledo, OH*** | December 9, 2009 | December 31, 2015 |
| West Palm Beach, FL | April 16, 2008 | December 31, 2014 |
| Summerlin, NV**** | December 16, 2008 | December 31, 2014 |
| Green Valley, NV**** | December 16, 2008 | December 31, 2014 |
| Aliante, NV**** | April 8, 2009 | December 31, 2014 |

* Branch campus of main campus in Edison, NJ
 ** Branch campus of main campus in Somerville, MA
 *** Branch campus of main campus in Dayton, OH
 **** Branch campus of main campus in Lincoln, RI

New England Association of Schools and Colleges of Technology Reaccreditation Dates

| School | Last Accreditation | |
|-----------------|--------------------|--------------------|
| | Letter | Next Accreditation |
| Southington, CT | November 31, 2006 | November 31, 2011 |
| Suffield, CT | November 1, 2006 | November 1, 2011 |

Accrediting Bureau of Health Education Schools Reaccreditation Dates

| School | Last Accreditation | |
|--------------------|--------------------|--------------------|
| | Letter | Next Accreditation |
| Fern Park, FL | December 15, 2003 | December 31, 2010 |
| St. Petersburg, FL | July 23, 2007 | December 31, 2010 |

If one of our schools fails to comply with accrediting commission requirements, the institution and its main and/or branch campuses are subject to the loss of accreditation. If any one of our schools lost its accreditation, students attending that school would no longer be eligible to receive Title IV Program funding, and we could be forced to close that school. Any institution required to submit retention data to the ACICS is required to obtain prior permission from the ACICS for the initiation of any new program and new branch campus or learning site.

Prior to our acquisition of the Americare School of Nursing in January 2009, ABHES, directed the school to show cause why its accreditation should not be withdrawn based upon a visit to the school's branch campus in St. Petersburg, Florida. We were informed that at ABHES's December 2009 board meeting, the ABHES board acknowledged that all the concerns covered by the show cause order were resolved to their satisfaction. However, the show cause order was extended until the next ABHES commission meeting in July 2010, due to ASN's composite score under Department of Education financial responsibility regulations. See "Regulatory Environment – Financial Responsibility Standards."

Prior to our acquisition of BRI, the American Board of Funeral Service Education, or ABFSE, the accrediting agency that provides programmatic accreditation of the college's mortuary sciences program, directed BRI to show cause why its accreditation should not be withdrawn. BRI submitted a response and hosted a follow-up visit from the agency in February 2009. BRI received a visit report and submitted a response to that report which was reviewed by ABFSE at its commission meeting. ABFSE informed the school that the show cause will stay in place until 2010, subject to improvement in the pass rate of the certification test. The pass rate for 2009 graduates exceeded the required threshold. Although no assurance can be given, we believe that BRI has addressed the remaining concern of ABFSE and that ABFSE will vacate the show cause order at its next commission meeting in April 2010.

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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. All recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV Program funds are properly accounted for and disbursed in the correct amounts to eligible students.

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

Federal Family Education Loan. Under the Federal Family Education Loan program, banks and other lending institutions make loans to students or their parents. If a student or parent defaults on a loan, payment is guaranteed by a federally recognized guaranty agency, which is then reimbursed by the DOE. Students with financial need qualify for interest subsidies while in school and during grace periods. For the year ended December 31, 2009, we derived approximately 64% of our Title IV revenues (calculated based on cash receipts) from the Federal Family Education Loan program.

Pell. Under the Pell program, the DOE makes grants to students who demonstrate the greatest financial need. For the year ended December 31, 2009, we derived approximately 22% of our revenues (calculated based on cash receipts) from the Pell program.

Federal Supplemental Educational Opportunity Grant. Under the Federal Supplemental Educational Opportunity Grant program, the DOE issues grants which are designed to supplement Pell grants for students with the greatest financial needs. An institution is required to make a 25% matching contribution for all funds received from the DOE under this program. For the year ended December 31, 2009, we received less than 1% of our revenues (calculated based on cash receipts) from the Federal Supplemental Educational Opportunity Grant program.

Perkins. Perkins loans are made from a revolving institutional account, 75% of which is funded by the DOE and the remainder by the institution. Each institution is responsible for collecting payments on Perkins loans from its former students and lending those funds to currently enrolled students. Defaults by students on their Perkins loans reduce the amount of funds available in the applicable school's revolving account to make loans to additional students, but the school does not have any obligation to guarantee the loans or repay the defaulted amounts. For the year ended December 31, 2009, we derived less than 1% of our revenues (calculated based on cash receipts) from the Perkins program.

Other Financial Assistance Programs

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

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

Effective February 2008, Sallie Mae, Inc. ("SLM") terminated its tiered discount loan agreement with us pursuant to which SLM provided private party loans to our students. As a result, we continue to search for alternative sub-prime loan providers but in the meantime we have decided to make financing available to students through our internal funding sources.

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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 the institution has demonstrated compliance with the Higher Education Act of 1965, as amended, HEA, or Higher Education Act, and the DOE's extensive regulations regarding institutional eligibility. The DOE defines an institution to consist of both a main campus and its additional locations, if any. Under this definition, for DOE purposes, we had the following 21 institutions as of December 31, 2009, collectively consisting of 21 main campuses and 22 additional locations:

| Brand | Main Campus (es) | Additional Location (s) |
|-------------------------------|--------------------------------|--|
| Lincoln Technical Institute | Union, NJ | Mahwah, NJ |
| | | Queens, NY |
| | | Philadelphia, PA |
| | | Allentown, PA |
| | | Edison, NJ |
| | | Mount Laurel, NJ |
| | | Paramus, NJ |
| | | Philadelphia, PA (Center City) |
| | | Northeast Philadelphia, PA (Northeast) |
| | | Somerville, MA |
| | | Lincoln, RI |
| | | Lowell, MA |
| | | Marietta, GA* |
| | | Brockton, MA |
| | Henderson, NV (Green Valley)** | |
| | Las Vegas, NV (Summerlin)** | |
| | Las Vegas, NV (Aliante)** | |
| | New Britain, CT | |
| | Shelton, CT | |
| | Cromwell, CT | |
| | Hamden, CT | |
| | East Windsor, CT | |
| | Hartford, CT | |
| | Suffield, CT | |
| | South Plainfield, NJ | |
| | Fern Park, FL | |
| | St. Petersburg, FL | |
| Lincoln College of Technology | Indianapolis, IN | |
| | Grand Prairie, TX | |
| | Melrose Park, IL | |
| | Columbia, MD | |
| | Denver, CO | |
| | West Palm Beach, FL | |
| Nashville Auto Diesel College | Nashville, TN | |
| Southwestern College | Dayton, OH | Cincinnati, OH (Vine Street) |
| | | Franklin, OH |
| | | Cincinnati, OH (Northland Blvd.) |
| | | Florence, KY |
| | | Toledo, OH |

Lincoln College of New England Southington, CT

Clemens College Suffield, CT

* This campus operates under the Lincoln College of Technology brand.

** These campuses operate under the Euphoria Institute of Beauty Arts & Sciences brands.

All of our main campuses, including their additional locations, are currently certified by the DOE to participate in the Title IV Programs. In connection with our acquisitions of New England Technical Institute, and New England Institute of Technology at Palm Beach, we have received in each case an executed provisional program participation agreement from the DOE. In connection with our acquisition of BRI and BAR we have received a provisional program participation agreement from the DOE.

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The DOE, accrediting commissions and state education agencies have responsibilities 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. On August 14, 2008, the Higher Education Opportunity Act, Public Law 110-315, reauthorized the Title IV HEA programs through at least September 30, 2014. The HEA reauthorization among other things revises the 90/10 Rule, as described below, revises the calculation of an institution's cohort default rate, requires additional disclosures and certifications with respect to non-Title IV alternative loans, prohibits certain activities or relations between lenders and schools to discourage preferential treatment of lenders based on factors not in students' best interests, and makes other changes.

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 Higher Education Act reauthorizations. Because a significant percentage of our revenues are derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could reduce our student enrollment and our revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV Program requirements. The College Cost Reduction & Access Act, which was signed into law in September 2007, cut approximately \$22 billion in subsidies to federal student lenders and guarantors as an offset to increases to federal financial aid. This resulted in significant changes to the terms that alternative lending providers were willing to make and resulted in the tiered discount programs.

The College Cost Reduction & Access Act reduced payments to lenders and guaranty agencies participating in the Federal Family Education Loan (FFEL) Program. This, in turn, reduced the profitability of the FFEL Program and made access to these loans, as well as private loans more difficult. The widening sub-prime mortgage crisis has negatively impacted student loans. Lenders are experiencing difficulty in securing funding from the debt markets to make new student loans, however through the Ensuring Continued Access to Student Loans Act the Department of Education will provide liquidity support to FFEL lenders by purchasing loans and providing long term financing for FFEL loans. This program is designed to continue access to these funds for students and their parents.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act which further increased the maximum Pell grant to \$4,860 for the July 1, 2009 through June 30, 2010 award year. When these funds are combined with the funding authorized and appropriated by the College Cost Reduction and Access Act – which increased the maximum award by \$490 – the maximum Pell award for the July 1, 2009 through June 30, 2010 award year is \$5,350.

In September 2009, the House of Representatives passed the Student Aid and Fiscal Responsibility Act of 2009, H.R. 3221. This legislation, which was designed to address the goals outlined by the U.S. federal budget, would amend the Higher Education Act to prohibit new federally guaranteed loans from being made under the FFEL Program, beginning on July 1, 2010, at which time all new federal education loans would be originated through the Federal Direct Loan Program. The legislation would also, among other matters, provide for automatic increases in the maximum amount of the Pell Grant for which a student would be eligible (subject to appropriations), create a new Federal Direct Perkins Loan program (to replace the current Perkins loan program) and provide relief to for-profit institutions by amending the 90/10 rule to: (i) extend to July 2012 the ability of for-profit institutions to exclude from their Title IV revenues the additional \$2,000 per student in certain annual federal student loan amounts that became

available in June 2008, (ii) exclude from the 90/10 rule calculation for the period July 1, 2010 through July 1, 2012 the revenue received from loans disbursed under the Federal Direct Perkins Loan program and (iii) give for-profit institutions three years (as opposed to two) to come into compliance with the 90/10 rule before becoming ineligible to participate in the Title IV programs if the second year ends between July 1, 2008 and June 30, 2011. The Student Aid and Fiscal Responsibility Act of 2009 has not been passed by Congress and is subject to further review and amendment. If the legislation passes, our institutions would be required to certify loans through the Federal Direct Loan Program rather than through the FFEL Program. Each of our institutions is eligible to participate in, and some of our institutions are currently participating in, the Federal Direct Loan Programs. We expect to be able to fully transition from the FFEL Program to the Federal Direct Loan Program by the proposed July 1, 2010 phase-out date, if necessary.

DOE Development of New Regulations. The DOE published new regulations in October 2009 to implement the amendments made to the HEA by the Higher Education Opportunity Act enacted in August 2008. The new regulations cover a broad range of topics including the 90/10 rule, cohort default rates and other matters. The new regulations have an effective date of July 1, 2010 with certain exceptions and with certain provisions subject to early implementation as of November 1, 2009 at the discretion of an institution.

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The DOE convened two negotiated rulemaking committees in November 2009 with the objective of developing new regulations in the areas of program integrity and foreign schools, respectively. With respect to program integrity, the DOE released to negotiators on the negotiated rulemaking committee issue papers containing preliminary drafts of proposed regulations for discussion purposes on topics which include the definition of high school diploma for the purpose of establishing institutional eligibility to participate in the Title IV programs and student eligibility to receive Title IV aid, ability to benefit students, misrepresentation of information provided to students and prospective students, incentive compensation, state authorization as a component of institutional eligibility, gainful employment in a recognized occupation, the definition of a credit hour, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The proposed regulations in the issue paper for incentive compensation would eliminate the 12 "safe harbors" established in the current regulations which permit certain types of activities related to the compensation of individuals engaged in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. The proposed regulations in the issue paper regarding gainful employment would require educational programs to prepare students for "gainful employment" in a recognized occupation, which includes all of our educational programs currently offered, to meet a standard under which the average student annual loan repayments cannot exceed eight percent of a student's starting annual income as calculated under a regulatory formula, or that the educational programs meet other alternative thresholds. The implementation of any of these regulatory changes, or other changes the DOE might propose and implement, could have a materially adverse effect on our business and results of operations. However, the proposals presented to the negotiated rulemaking committee are not final regulations, nor do they necessarily represent the final position of the DOE on these subjects, and remain subject to further review and change during the subsequent rulemaking process. The negotiated rulemaking committee did not reach consensus on all of the proposed regulations, which means that DOE may publish proposed regulations which differ from those presented to the committee. The DOE is expected to publish proposed regulations later this year which will be subject to public comment and further revision by the DOE before publication of final regulations. The DOE has stated that its intention is to publish final regulations by November 1, 2010, which would result in a general effective date of July 1, 2011. We are closely monitoring any policy or regulatory changes resulting from these rulemaking sessions which could materially impact our institutions, our business and results of operations.

The "90/10 Rule." Under the HEA reauthorization, 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 ending after August 14, 2008 will be placed on provisional certification and may be subject to other enforcement measures. Under prior law, an institution would immediately lose its eligibility to participate in Title IV Programs if it derived more than 90% of its revenue (calculated based on cash receipts) from those programs in any fiscal year as calculated in accordance with DOE regulations and would be ineligible to apply to regain its eligibility until the following fiscal year. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility. Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the Federal Family Education Loan Program, or FFEL, increased. This loan limit increase, coupled with recent increases in grants from the Pell program and other Title IV loan limits, will result in some of our schools experiencing an increase in the revenues they receive from the Title IV programs. The HEA reauthorization provided some relief from this effect by excluding portions of the loan limit increase from the Title IV component of the 90/10 rule calculation.

We have calculated that, for each of our 2009, 2008 and 2007 fiscal years, none of our institutions derived more than 88.5% of its revenues from Title IV Programs. For our 2009 fiscal year, our institutions' 90/10 Rule percentages

ranged from 64.6% to 88.5%. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenues from Title IV Programs for any fiscal year.

Student Loan Defaults. An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution's current and former students default on their federal student loans exceed specified percentages. The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The DOE calculates an institution's cohort default rate (as defined by the DOE regulations) on an annual basis as the rate at which borrowers scheduled to begin repayment on their loans in one year default on those loans by the end of the next year (two year ratio). An institution whose Federal Family Education Loan cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the Federal Family Education Loan, Federal Direct Loan, and Pell programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose Federal Family Education Loan cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the Federal Family Education Loan and Federal Direct Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's cohort default rate equals or exceeds 25% in any of its three most recent fiscal years, the institution may be placed on provisional certification status.

The HEA has been amended by the Higher Education Opportunity Act, or HEOA, to provide for the calculation of an institution's cohort default rate using a three year period, beginning with the cohort default rate for the 2009 federal fiscal year. Under the HEA reauthorization, an institution's cohort default rate is redefined to be based on the rate at which its former students default on their FFEL loans over a period of time that is one year longer than the period of time over which rates currently are calculated. As a result, most institutions' respective cohort default rates are expected to increase under the new provision, which first would apply to cohort default rates for the 2009 federal fiscal year. The DOE will not impose sanctions based on rates calculated under the new provision until three consecutive years have been calculated under the new method. Until that time, the DOE will continue to calculate rates under the old method and impose sanctions based on those rates. The HEOA also increases the cohort default three-year threshold from 25% to 30% effective for three year cohort default rates issued beginning in federal fiscal year 2012. On September 15, 2009, the DOE published the cohort default rate for each of our schools for the 2007 federal fiscal year which range from 0% to 22.9%.

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As of December 31, 2009, none of our institutions had a Federal Family Education Loan cohort default rate (as defined by the DOE) of 25% or greater for any of the federal fiscal years 2007, 2006 and 2005, the three most recent years for which the DOE has published such rates. The following table sets forth the Federal Family Education Loan cohort default rates for each of our 21 DOE institutions as of December 31, 2009 for those fiscal years:

| Institution | 2007 | | 2006 | | 2005 | |
|---------------------|------|---|------|---|------|---|
| Union, NJ | 12.6 | % | 10.8 | % | 9.9 | % |
| Indianapolis, IN | 13.0 | % | 12.3 | % | 7.5 | % |
| Philadelphia, PA | 19.9 | % | 15.0 | % | 9.2 | % |
| Columbia, MD | 12.5 | % | 12.0 | % | 7.5 | % |
| Allentown, PA | 10.3 | % | 10.1 | % | 11.5 | % |
| Melrose Park, IL | 18.1 | % | 11.8 | % | 11.6 | % |
| Grand Prairie, TX | 22.0 | % | 19.3 | % | 14.6 | % |
| Edison, NJ | 16.3 | % | 14.5 | % | 6.7 | % |
| Denver, CO | 11.0 | % | 11.1 | % | 7.0 | % |
| Nashville, TN | 7.2 | % | 5.6 | % | 5.2 | % |
| Lincoln, RI | 12.9 | % | 14.9 | % | 12.8 | % |
| Somerville, MA | 12.3 | % | 12.3 | % | 8.5 | % |
| Dayton, OH | 13.5 | % | 9.9 | % | 7.6 | % |
| New Britain, CT | 9.1 | % | 11.2 | % | 4.6 | % |
| West Palm Beach, FL | 10.3 | % | 9.9 | % | 4.7 | % |
| Southington, CT* | 22.9 | % | 10.2 | % | 13.9 | % |
| South Plainfield** | 9.4 | % | 6.3 | % | 5.6 | % |
| Fern Park** | 5.9 | % | 6.2 | % | 2.0 | % |
| Hartford** | 6.5 | % | 5.3 | % | 6.7 | % |
| East Windsor** | 9.5 | % | 6.1 | % | 7.0 | % |
| Clemens College*** | 0.0 | % | 0.0 | % | 0.0 | % |

*This institution was acquired on December 1, 2008.

**These institutions were acquired on January 20, 2009.

***This institution was acquired on April 20, 2009.

On February 8, 2010, the DOE issued draft cohort default rates for the 2008 federal fiscal year. The draft rates are not final and may be subject to appeal and further upward or downward revisions before the DOE publishes final rates, which is expected to occur in October 2010. Our 2008 rates ranged from 4.6% to 26.4%. The preliminary cohort default rate of one institution was over 25%.

In December 2009, the DOE issued an electronic announcement explaining the future changes to the methodology for calculating an institution's cohort default rate based on defaults occurring over a three-year period, rather than a two-year period, and released unofficial trial three-year cohort default rates for the 2005, 2006, and 2007 federal fiscal years. These unofficial rates are for information purposes only and are intended to provide institutions with an indication of what their cohort default rates would be for the 2005, 2006 and 2007 federal fiscal years if calculated under the new methodology.

The rates for our institutions under the new methodology ranged from 7.2% to 31.7% for the 2005 federal fiscal year, from 10.6% to 37.0% for the 2006 federal fiscal year and from 16.2% to 42.2% for the 2007 federal fiscal year. Our official cohort default rates for institutions for these same time periods as published by the DOE range from 0% to 14.6% for the 2005 federal fiscal year, from 0% to 19.3% for the 2006 federal fiscal year and from 0% to 22.9% for the 2007 federal fiscal year. The DOE stated in the electronic announcement that the publication of these rates is for

informational purposes only and that no sanctions will be imposed based on these rates.

Perkins Loan Program

An institution whose Perkins cohort default rate is 50% or greater for three consecutive federal award years loses eligibility to participate in the Perkins program for the remainder of the federal award year in which DOE determines that the institution has lost its eligibility and for the two subsequent federal award years. None of our institutions has had a Perkins cohort default rate of 50% or greater for any of the last three federal award years. The DOE also will not provide any additional federal funds to an institution for Perkins loans in any federal award year in which the institution's Perkins cohort default rate is 25% or greater. Such institutions also may be subject to provisional certification. Our Denver, Colorado institution, or Denver, and NETI are our only institutions participating in the Perkins program. Denver's Perkins cohort default rate was 30.4% for students scheduled to begin repayment in the 2008-2009 federal award year. The DOE did not provide any additional Federal Capital Contribution Funds for Perkins loans to Denver. Denver continues to make loans out of its existing Perkins loan fund. Lincoln Technical Institute (New Britain, CT) is provisionally certified by the DOE based on its change in ownership and on a finding by the DOE prior to the change in ownership that NETI had not transmitted certain data related to the Perkins program to the National Student Loan Data System during periods prior to the acquisition. Our New Britain, CT institution's cohort default rate was 19.0% for students scheduled to begin repayment in the 2008-2009 federal award year.

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

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

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

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

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

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

The DOE has evaluated the financial responsibility of our institutions on a consolidated basis. We have submitted to the DOE our audited financial statements for the 2007 and 2008 fiscal year reflecting a composite score of 1.8 and 1.8, respectively, based upon our calculations, and that our schools meet the DOE standards of financial responsibility. For the 2009 fiscal year, we have calculated our composite score to be 2.0.

Prior to our acquisition, all of the former Baran institutions (East Windsor, South Plainfield, Fern Park, Hartford and Clemens/Suffield) were placed on Heightened Cash Monitoring Type 1 status, resulting from their failure to meet their financial responsibility composite scores for the years ended December 31, 2008 and December 31, 2007. As a result, these institutions were subject to a less favorable Title IV funding system that required us to credit student accounts before drawing down Title IV funds and also required us to timely notify the DOE with respect to certain enumerated oversight and financial events. In addition, the institutions were required to submit letters of credit to the DOE in the amount of \$2.0 million with an expiration date of December 31, 2009 based on the composite score review for December 31, 2007. Based on the composite score review for December 31, 2008, the DOE subsequently

required the institutions to increase the letter of credit to approximately \$2.9 million to reflect the increase of Title IV participation during 2008. The letter of credit was posted as of December 31, 2009 with an expiration date of December 31, 2010. We expect that once we file our 2009 consolidated financial statements with the DOE, which we believe reflects a composite score of 2.0 that the requirement for the letter of credit will be vacated, but this outcome remains subject to DOE review.

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

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If an institution is cited in an audit or program review for returning Title IV Program funds late for 5% or more of the students in the audit or program review sample, the institution must post a letter of credit in favor of the DOE in an amount equal to 25% of the total amount of Title IV Program funds that should have been returned for students who withdrew in the institution's previous fiscal year. None of our institutions are currently required to submit a letter of credit to the DOE based on late return of Title IV funds.

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

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. In the event that the largest shareholder's interest falls below 25%, it will result in a change of ownership as defined by ACCSC (15 Campuses) standards as well as defined by Title IV regulations (all campuses) and would require approval, and advance approval in some cases, by these and any other agencies that deem the transaction to constitute a change of control.

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 our company or schools are involved. Some corporate reorganizations and some changes in the board of directors 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 your shares of 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, 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. If an institution erroneously determines that an educational program is eligible for purposes of Title IV Programs, the institution would likely be liable for repayment of Title IV Program funds provided to students in that educational program. Our expansion plans are based, in part, on our ability to add new educational programs at our existing schools. We do not believe that current DOE regulations will create significant obstacles to our plans to add new programs.

Some of the state education agencies and our accrediting commission also have requirements that may affect our schools' ability to open a new campus, establish an additional location of an existing institution or begin offering a new educational program. Any institution required to submit retention data to the ACICS may be required to obtain prior permission from the ACICS for the initiation of any new program or new branch campus or learning site. We do not believe that these standards will create significant obstacles to our expansion plans.

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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 regulations;
- Have capable and sufficient personnel to administer the federal student financial aid programs;
- Administer Title IV programs with adequate checks and balances in its system of internal controls over financial reporting;
- Divides 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 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 Title IV;
 - 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 or 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 financial aid counseling to its students;
- Submit in a timely manner all reports and financial statements required by the regulations; and
 - Not otherwise appear to lack administrative capability.

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

Other standards provide that an institution may be found to lack administrative capability and be placed on provisional certification if its student loan default rate under the Federal Family Education Loan program is 25% or greater for any of the three most recent federal fiscal years, or if its Perkins cohort default rate exceeds 15%. None of our institutions had a Federal Family Education Loan cohort default rate above 25% for any of the three most recent fiscal years for which the DOE has published official rates. Denver and NETI are our only institutions participating in the Perkins program. Denver's cohort default rate was 30.4% for students scheduled to begin repayment in the 2008-2009 federal award year. The DOE did not provide any additional Federal Capital Contribution Funds for Perkins loans to Denver. Denver continues to make loans out of its existing Perkins loan fund. As was the case prior to our acquisition of NETI, the institution remains provisionally certified by the DOE based on its change in ownership and on a finding by the DOE prior to the change in ownership that NETI had not transmitted certain data related to the Perkins program to the National Student Loan Data System during periods prior to the acquisition. NETI's cohort default rate was 19.0% for students scheduled to begin repayment in the 2008-2009 federal award year.

Ability to Benefit Regulations. Under certain circumstances, an institution may elect to admit non-high school graduates, or "ability to benefit," students, into certain of its programs of study. In order for ability to benefit students to be eligible for Title IV Program participation, the institution must comply with the ability to benefit requirements set forth in the Title IV Program requirements. The basic evaluation method to determine that a student has the ability to benefit from the program is the student's achievement of a minimum score on a test approved by the DOE and independently administered in accordance with DOE regulations. The HEOA provisions also permit students to demonstrate their ability to benefit and become eligible to receive Title IV funds upon satisfactory completion of six credit hours or the equivalent coursework. In addition to the testing requirements, the DOE regulations also prohibit ability to benefit student enrollments from constituting 50% or more of the total enrollment of the institution. In 2009,

the following schools were authorized to enroll "ability to benefit" applicants: Southwestern College, New Britain, Cromwell, Shelton, Hamden, Union, Mahwah, Indianapolis, Melrose Park, Grand Prairie, Somerville, Denver, West Palm Beach, Center City Philadelphia, Northeast Philadelphia, Paramus, Mt. Laurel, Marietta, Lowell, Edison, Brockton, Allentown Summerlin, Hartford, Suffield, Fern Park, St. Petersberg, BRI and South Plainfield.

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

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Eligibility and Certification Procedures. Each institution must periodically apply to the DOE for continued certification to participate in Title IV Programs. The institution must also apply for recertification when it undergoes a change in ownership resulting in a change of control. The institution also may come under DOE review when it undergoes a substantive change that requires the submission of an application, such as opening an additional location or raising the highest academic credential it offers.

The DOE may place an institution on provisional certification status if it determines that the institution does not fully satisfy certain administrative and financial standards or if the institution undergoes a change in ownership resulting in a change of control. The DOE may withdraw an institution's provisional certification with the institution having fewer due process protections than if it were fully certified. In addition, the DOE may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change. Provisional certification does not otherwise limit an institution's access to Title IV Program funds.

Our acquisitions of BRI and of the BAR resulted in a change in ownership of such schools requiring each of those schools and their campuses to reapply for eligibility to participate in the Title IV programs and for approvals from their accrediting and state licensing agencies. BRI and each of the BAR schools have each received a Provisional Program Participation Agreement from the DOE following completion of the DOE's review of the change in ownership, and have received approval of the change in ownership from their accrediting agencies and from their state licensing agencies.

All institutions are recertified on various dates for various amounts of time. The following table sets forth the expiration dates for each of our institutions' current program participation agreement as of December 31, 2009:

| Institution | Expiration Date of Current Program Participation Agreement |
|----------------------|---|
| Allentown, PA | March 31, 2014 |
| Columbia, MD | June 30, 2013 |
| Philadelphia, PA | December 31, 2013 |
| Denver, CO | September 30, 2012* |
| Lincoln, RI | March 31, 2014 |
| Nashville, TN | March 31, 2014 |
| Somerville, MA | March 31, 2014 |
| Edison, NJ | June 30, 2011 |
| Union, NJ | June 30, 2011 |
| Grand Prairie, TX | December 31, 2014 |

| | |
|----------------------|---------------------|
| Indianapolis, IN | December 31, 2014 |
| Melrose Park, IL | December 31, 2014 |
| Dayton, OH | March 31, 2014 |
| New Britain, CT | September 30, 2013* |
| West Palm Beach, FL | June 30, 2010* |
| Southington, CT | September 30, 2011* |
| East Windsor, CT | June 30, 2012* |
| Suffield, CT | June 30, 2012* |
| Fern Park, FL | June 30, 2012* |
| South Plainfield, NJ | June 30, 2012* |
| Hartford, CT | June 30, 2012* |

* Provisionally certified

Compliance with Regulatory Standards and Effect of Regulatory Violations. Our schools are subject to audits, program reviews, and site visits by various regulatory agencies, including the DOE, the DOE's Office of Inspector General, state education agencies, student loan guaranty agencies, the U.S. Department of Veterans Affairs and our accrediting commissions. In addition, each of our institutions must retain an independent certified public accountant to conduct an annual audit of the institution's administration of Title IV Program funds. The institution must submit the resulting audit report to the DOE for review.

BRI self-reported a matter of potential regulatory non-compliance to the DOE regarding the eligibility of certain students to receive Title IV funds for their enrollment in certain educational programs. The institution received a letter from the DOE requesting that the school provide a list of all students who attended the program and the total amount of their Title IV disbursements. The DOE informed us in November 2009 that the total liability due to the DOE as a result of this letter is approximately \$290,000. We have notified the prior owners of the results and recovered \$205,000 of the amount under the escrow and indemnity arrangement in the related purchase agreement.

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In December 2009, the DOE performed its new Compliance Assurance Program Review at BRI. The review assessed BRI's administration of Title IV programs during the period from July 1, 2008 through June 30, 2009. The review has been completed and the exit interview conducted by the DOE revealed several minor concerns. BRI is waiting for a formal report from the DOE with its findings and recommendations.

If one of our schools failed to comply with accrediting or state licensing requirements, such school and its main and/or branch campuses could be subject to the loss of state licensure or accreditation, which in turn could result in a loss of eligibility to participate in Title IV Programs. If the DOE determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the Higher Education Act or DOE regulations, the institution could be required to repay such funds and related costs to the DOE and lenders, and could be assessed an administrative fine. The DOE could also place the institution on provisional certification and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the students' eligibility for Title IV Program funds before receiving such funds from the DOE. An institution that is operating under this "Heightened Cash Monitoring, Type 1 status," is required to credit student accounts before drawing down funds under Title IV Programs and to draw down funds in an amount no greater than the previous disbursement to students and parents. Additionally, an institution's compliance audit is required to contain verification that this did occur throughout the year. In addition to the above, the DOE requires institutions to comply with certain requirements if they are operating in "the zone," which is indicative of a composite score between 1.0 and 1.4. Those requirements include providing timely information regarding any of the following oversight and financial events:

- Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
- Any event that causes the institution, or related entity to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audit financial statement;
 - Any violation by the institution of any loan agreement;
- Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
 - Any withdrawal of owner's equity from institution by any means, including declaring a dividend; or
 - Any extraordinary losses, as defined in accordance with Accounting Principles Board Opinion No. 30.

Operating under the zone requirements may also require the institution to submit its financial statement and compliance audits earlier than the date previously required and require the institution to provide information about its current operations and future plans. An institution that continues to fail to meet the financial responsibility standards set by the DOE or does not comply with the zone requirements may lose its eligibility to continue to participate in Title IV funding. If eligibility is lost, the institution may be required to post irrevocable letters of credit, for an amount determined by the DOE at a minimum of 50% of the Title IV Program funds received by the institution during its most recently completed fiscal year. The institution may also be required to post irrevocable letters of credit at a minimum of 10% of such funds and be provisionally certified and subject to other reporting and monitoring requirements.

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

We and our schools are also subject to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by third parties, such as present or former students or employees and other members of the public. If we are unable to successfully resolve or defend against any such complaint or lawsuit, we may be

required to pay money damages or be subject to fines, limitations, loss of federal funding, injunctions or other penalties. Moreover, even if we successfully resolve or defend against any such complaint or lawsuit, we may have to devote significant financial and management resources in order to reach such a result.

Lenders and Guaranty Agencies. In 2009, six lenders provided funding to more than 90% of the students at the schools we owned during that year: Sallie Mae Education Trust, AMS Trust, Fifth Third Bank, Student Funding Group, Federal Direct Student Loans, and Nelnet. While we believe that other lenders might be willing to make federally guaranteed student loans to our students if loans were no longer available from our current lenders, there can be no assurances in this regard. In addition, the Higher Education Act requires the establishment of lenders of last resort in every state to ensure that loans are available to students at any school that cannot otherwise identify lenders willing to make federally guaranteed loans to its students.

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

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Item 1A.

RISK FACTORS

The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are not material may also adversely affect our business, financial condition, operating results, cash flows and prospects.

RISKS RELATED TO OUR INDUSTRY

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

Our schools are subject to extensive regulation by federal and state governmental agencies and by accrediting commissions. In particular, the Higher Education Act of 1965, as amended, and the regulations promulgated thereunder by the DOE, set forth numerous standards that our schools must satisfy to participate in various federal student financial assistance programs under Title IV Programs. In 2009, we derived approximately 81% of our revenues, calculated based on cash receipts, from Title IV Programs. To participate in Title IV Programs, each of our schools must receive and maintain authorization by the applicable education agencies in the state in which each school is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. These regulatory requirements cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, student performances and outcomes, financial operations and financial condition. These regulatory requirements also affect our ability to acquire or open additional schools, add new educational programs, expand existing educational programs, and change our corporate structure and ownership.

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 the loss of state licensure or accreditation, the loss of eligibility to participate in and receive funds under the Title IV Programs, the loss of the ability to grant degrees, diplomas and certificates, provisional certification, or the imposition of liabilities or monetary penalties, each of which could adversely affect our revenues and impose significant operating restrictions upon us. In addition, the loss by any of our schools of its accreditation, its state authorization or license, or its eligibility to participate in Title IV Programs constitutes an event of default under our credit agreement, which we and our subsidiaries entered into with a syndicate of banks on December 1, 2009. An event of default on our credit agreement could result in the acceleration of all amounts then outstanding under our credit agreement. The various regulatory agencies 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 or our eligible institutions do not meet the financial responsibility standards prescribed by the DOE, as is the case with some of our institutions, we may be required to post letters of credit or our eligibility to participate in Title IV Programs could be terminated or limited, which could significantly reduce our student population and revenues.

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

Each year, based on the financial information submitted by an eligible institution that participates in Title IV Programs, the DOE calculates three financial ratios for the institution: an equity ratio, a primary reserve ratio and a net income ratio. Each of these ratios is scored separately and then combined into a composite score to measure the institution's financial responsibility. If the composite score for an institution falls below thresholds established by the DOE, the DOE could place the institution on provisional certification and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the student's eligibility for Title IV Program funds before receiving such funds from the DOE. If an institution has a composite score between 1.0 and 1.4, the institution will be required to operate under "Heightened Cash Monitoring, Type 1 status." If an institution's composite score is below 1.0, the institution is considered by the DOE to lack financial responsibility and, as a condition of Title IV Program participation, the institution may be required to, among other things, post a letter of credit in an amount of at least 10 to 50 percent of the institution's annual Title IV Program participation for its most recent fiscal year. Certain of our institutions currently do not comply with DOE financial responsibility requirements. See "Regulatory Environment – Financial Responsibility Standards."

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Based on our calculations, our 2009 and 2008 consolidated financial statements reflect a composite score for the Company of 2.0 and 1.8, respectively.

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

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

- Comply with all applicable Title IV regulations;
- Have capable and sufficient personnel to administer Title IV Programs;
- Administer the Title IV Programs with adequate checks and balance 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 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 Title IV;
 - 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 or 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 financial aid counseling to its students; and
- Submit in a timely manner all reports and financial statements required by the regulations.

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

- Require the repayment of Title IV funds;
- Impose a less favorable payment system for the institution's receipt of Title IV funds;
- Place the institution on provisional certification status; or
- Commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV Programs.

If we are found not to have satisfied the DOE's "administrative capability" requirements, one or more of our institutions, including its additional locations, could be limited in its access to, or lose, Title IV Program funding. A decrease in Title IV funding could adversely affect our revenues, as we received approximately 81% of our revenues (calculated based on cash receipts) from Title IV Programs in 2009.

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.

A school participating in Title IV Programs may not provide any commission, bonus or other incentive payment based on 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. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. If we are found to have violated this law, we could be fined or otherwise sanctioned by the DOE or we could face litigation filed under the qui tam provisions of the Federal False Claims Act.

If we were involved in conflicts of interest with student loan lenders, we could be subject to penalties and otherwise suffer adverse impacts on our business.

The New York Attorney General, several other attorneys-general, the United States Senate and House of Representatives Education Committees, and the DOE have all launched investigations of potential conflicts of interest between university officials and various private lending organizations that provide student loans. Several universities and lending organizations agreed to pay fines to settle claims in this regard. In addition, several financial aid officials at other universities were suspended or placed on leaves of absence. While no allegations were raised concerning our institutions, we received general requests for information from the offices of two state attorneys-general in 2007. We have no reason to believe that any of our employees have engaged in improper conduct in this regard. If any such impropriety were found, we could be subject to penalties and other adverse consequences.

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

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

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

Our institutions would lose eligibility to participate in Title IV Programs if the percentage of their revenues derived from those programs were too high, 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 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 ending after August 14, 2008, will be placed on provisional certification and may be subject to other enforcement measures. Under prior law, an institution would immediately lose its eligibility to participate in Title IV Programs if it derived more than 90% of its revenues (calculated based on cash receipts) from those programs in any fiscal year as calculated in accordance with DOE regulations and would be ineligible to apply to regain its eligibility until the following fiscal year. Based on our calculations, none of our institutions received more than 90% of its revenues in fiscal year 2009, and our institution with the highest percentage received approximately 88.5% of its revenues, from Title IV Programs. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all title IV Program funds received by the institution after the effective date of the loss of eligibility. 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, which could result in the acceleration of any indebtedness then outstanding under our credit agreement, and would also adversely affect our students' access to various government-sponsored student financial aid programs, which could reduce our student population and revenues. These calculations are required to be made based on cash receipts and in accordance with rules prescribed under the HEA and DOE regulations.

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 of higher education, such as each of our institutions, loses its eligibility to participate in some or all Title IV Programs if its former students default on the repayment of their federal student loans in excess of specified levels. If any of our institutions exceeds the specified levels based on official student loan default rates published by the DOE, it will lose eligibility to participate in some or all Title IV Programs. That loss would adversely affect our students' access to various government-sponsored student financial aid programs, which could reduce our student population and revenues.

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

If regulators do not approve our acquisition of a school that participates in Title IV Programs, the acquired school would no longer be permitted to participate in Title IV Programs, which could impair our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school.

If we acquire a school that participates in Title IV Programs, we must obtain approval from the DOE and applicable state education agencies and accrediting commissions in order for the school to be able to continue operating and participating in Title IV Programs. An acquisition can result in the temporary suspension of the acquired school's participation in Title IV Programs unless we submit to the DOE a timely and materially complete application for recertification and the DOE issues a temporary provisional program participation agreement. If we were unable to timely re-establish the state authorization, accreditation or DOE certification of the acquired school, our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school could be impaired.

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Issuance or sales of a substantial amount of our common stock could result in a change in control of our schools, which could require any affected schools to reaffirm their DOE approvals, state authorizations and accreditations and their ability to participate in Title IV Programs.

A significant issuance or disposition of our common stock could result in a change in control under the standards of the DOE and applicable state education agencies and accrediting commissions. The DOE, most state education agencies and our accrediting commissions have standards pertaining to the change in control of schools, which are not uniform and are subject to interpretation by these respective agencies. A change in control under the definition of one of these agencies would require the affected school to reaffirm the applicable DOE approval, state authorization or accreditation. Each school that undergoes a change in control under the standards of the DOE must apply for recertification for continued ability to participate in Title IV Programs. Some agencies would require approval prior to an issuance or disposition that would result in a change in control in order to maintain authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely.

DOE regulations describe some transactions that constitute a change in 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 in ownership resulting in 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 in control or (b) if the corporation has a stockholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest stockholder of the corporation, and that stockholder ceases to own at least 25% of such stock or ceases to be the largest stockholder. The DOE regulations state that an institution that undergoes a change in ownership that results in a change in control ceases to qualify as an institution eligible to participate in the Title IV programs upon the change in ownership and control. However, the DOE regulations provide that the DOE may continue the institution's participation in the Title IV programs on a provisional basis provided that the institution submits to the DOE a materially complete application (as defined in the DOE regulations) for approval to participate in the Title IV programs no later than 10 business days after the change in ownership occurs. If a change in ownership occurs, we intend to submit a materially complete application to the DOE for each of our institutions prior to this deadline.

If the DOE determines that the institution has submitted a materially complete application, the DOE provides the institution with a Temporary Provisional Program Participation Agreement, or Temporary PPPA, which extends the terms and conditions of the program participation agreement that were in effect for the institution before its change in ownership pending the DOE's consideration of the institution's application for approval to participate in the Title IV programs. The Temporary PPPA expires on the last day of the month following the month in which the change in ownership resulting in a change of control occurred unless the institution provides documentation outlined in the DOE regulations to the DOE on or before that date. If the Temporary PPPA were to expire, the institution would become ineligible to participate in the Title IV programs until the DOE completed its review of the institution's application for approval to participate in the Title IV programs. If the institution provides the DOE with the required documentation, the DOE extends the Temporary PPPA on a month-to-month basis until the DOE completes its review of the application for approval to participate in the Title IV programs and either signs a new provisional program participation agreement with the institution or notifies the institution that its application is denied. If the DOE denies the application of one or more of our institutions, each of such institutions, including its main campus and all of its additional locations, would be ineligible to participate in the Title IV programs. As of December 31, 2009, our principal stockholder owned 31.8% of our outstanding common stock. Future issuances of common stock by us or sales of common stock by our principal stockholder may result in a change in control under any of the DOE or state authorization and accreditation standards. See "A disposition by our principal stockholder of all or a significant portion of its shares of our outstanding stock could impact the market price of our shares and result in a change of control." We cannot assure you that each of the aforementioned agencies would approve any application it will or may require in connection with a change in control.

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

Congress periodically revises the Higher Education Act and other laws governing Title IV HEA Programs and annually determines the funding level for each Title IV Program. On August 14, 2008, the Higher Education Opportunity Act, Public Law 110-315 was enacted. The HEA reauthorized the Title IV programs through at least September 30, 2014. Any action by Congress that significantly reduces funding for Title IV Programs or the ability of our schools or students to receive funding through those programs could result in increased administrative costs and decreased profit margin.

In addition, current requirements for student and school participation in Title IV Programs may change or one or more of the present Title IV Programs could be replaced by other programs with materially different student or school eligibility requirements. If we cannot comply with the provisions of the Higher Education Act, as they may be revised, or if the cost of such compliance is excessive, our revenues or profit margin could be adversely affected. Congress is currently considering amendments to the HEA. See “Regulatory Environment - Congressional Action.”

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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 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.”

Our failure to comply with regulations promulgated by the DOE could result in financial penalties, or the limitation, suspension, or termination of our continued participation in the Title IV programs.

The issues addressed in the regulations that have been or are expected to be proposed by the DOE, which are described under "Regulatory Environment" in this Annual Report on Form 10-K are broad and complex and address a number of significant aspects of the Title IV programs, including eligibility and certification, administrative capability, school-lender relationships, the 90/10 rule, incentive compensation, student loan default rates and gainful employment. Failure of an institution to comply with new or existing DOE regulations could result in sanctions, including loss of eligibility to participate in Title IV programs; requirement to repay Title IV funds and related costs to the DOE and lenders; transfer of the institution to the heightened cash monitoring level two method of payment or to the reimbursement method of payment, which would adversely affect the timing of the institution's receipt of Title IV funds; requirement to post a letter of credit in favor of the DOE as a condition for continued Title IV certification; requirement to provide timely information regarding certain oversight and financial events; proceedings to impose a fine or to limit, suspend or terminate the institution's participation in Title IV programs; an emergency action to suspend the institution's participation in Title IV programs without prior notice or a prior opportunity for a hearing; denial or refusal to consider an institution's application for renewal of its certification to participate in Title IV programs; or referral of a matter for possible civil or criminal investigation.

The DOE may change its regulations 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, or otherwise have a material adverse effect on our business and results of operations.

The DOE convened two negotiated rulemaking committees in November 2009 with the objective of developing new regulations in the areas of program integrity and foreign schools, respectively. With respect to program integrity, the DOE released to negotiators on the negotiated rulemaking committee issue papers containing preliminary drafts of proposed regulations for discussion purposes on topics which include the definition of high school diploma for the purpose of establishing institutional eligibility to participate in the Title IV programs and student eligibility to receive Title IV aid, ability to benefit students, misrepresentation of information provided to students and prospective students, incentive compensation, state authorization as a component of institutional eligibility, gainful employment in a recognized occupation, the definition of a credit hour, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The proposed regulations in the issue paper for incentive compensation would eliminate the 12 “safe harbors”

established in the current regulations which permit certain types of activities related to the compensation of individuals engaged in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. The proposed regulations in the issue paper regarding gainful employment would require educational programs to prepare students for “gainful employment” in a recognized occupation, which includes all of our educational programs currently offered, to meet a standard under which the average student annual loan repayments cannot exceed eight percent of a student’s starting annual income as calculated under a regulatory formula, or that the educational programs meet other alternative thresholds. The implementation of any of these regulatory changes, or other changes the DOE might propose and implement, could have a materially adverse effect on our business. However, the proposals presented to the negotiated rulemaking committee are not final regulations, nor do they necessarily represent the final position of the DOE on these subjects, and remain subject to further review and change during the subsequent rulemaking process. The negotiated rulemaking committee did not reach consensus on all of the proposed regulations, which means that DOE may publish proposed regulations which differ from those presented to the committee. The DOE is expected to publish proposed regulations later this year which will be subject to public comment and further revision by the DOE before publication of final regulations. The DOE has stated that its intention is to publish final regulations by November 1, 2010, which would result in a general effective date of July 1, 2011. We are closely monitoring any policy or regulatory changes resulting from these rulemaking sessions which could materially impact our institutions, our business and results of operations.

Our regulatory environment and our reputation may be negatively influenced by the actions of other postsecondary institutions.

In recent years, regulatory investigations and civil litigation have been commenced against several postsecondary educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with DOE regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall postsecondary sector may negatively impact public perceptions of postsecondary educational institutions, including us. Such allegations could result in increased scrutiny and regulation by the DOE, U.S. Congress, accrediting bodies, state legislatures or other governmental authorities on all postsecondary institutions, including us.

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A decline in the overall growth of enrollment in postsecondary institutions, or in our core disciplines or in the number of students seeking degrees online, could cause us to experience lower enrollment at our schools, which could negatively impact our future growth.

The growth rate of enrollment in degree-granting, postsecondary institutions over the next ten years is expected to be slower than in the prior ten years. Growth rates of online postsecondary education enrollment are also expected to be slower in future periods. In addition, according to a March 2008 report from the Western Interstate Commission for Higher Education, the number of high school graduates that are eligible to enroll in degree-granting, postsecondary institutions is expected to peak at approximately 3.3 million for the class of 2008, falling in the period between 2007–08 and 2013–14 by about 150,000 in total before resuming a growth pattern for the foreseeable future. Although, as of December 31, 2009, only 23.1 % of our students were enrolled in degree granting programs (primarily at the associate's degree level), our strategy is to expand our degree granting offerings. 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 and 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.

RISKS RELATED TO OUR BUSINESS

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

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

We may not be able to successfully integrate acquisitions into our business, which may materially adversely affect our business, financial condition, results of operations and could cause the market value of our common stock to decline.

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

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

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

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

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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, or IT, skilled trades, healthcare industries and hospitality services. 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.

Risks specific to our schools' online campuses could have a material adverse effect on our business.

Our schools' online campuses intend to increase student enrollment, and more resources will be required to support this growth, including additional faculty, admissions, academic, and financial aid personnel. This growth may place a strain on the operational resources of our schools' online campuses. Our schools' online campuses' success depends, in part, on their ability to expand the content of their programs, develop new programs in a cost-effective manner, maintain good standings with their regulators and accreditors, and meet their students' needs in a timely manner. The expansion of our schools' online campuses' existing programs and the development of new programs may not be accepted by their students or the online education market, and new programs could be delayed due to current and future unforeseen regulatory restrictions. The performance and reliability of the program infrastructure at our schools' online campuses is critical to the reputation of these campuses and the campuses ability to attract and retain students. Any computer system error or failure, or a sudden and significant increase in traffic on our computer networks that host our schools' online campuses, may result in the unavailability of our schools' online campuses' computer networks. Individual, sustained, or repeated occurrences could significantly damage the reputation of our schools' online campuses and result in a loss of potential or existing students. Additionally, our schools' online campuses' computer systems and operations are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Any interruption to our schools' online campuses' computer systems or operations could have a material adverse effect on the ability of our schools' online campuses to attract and retain students.

Our computer networks—either administrative network or those supporting educational programs— may also be vulnerable to unauthorized access, computer hackers, computer viruses, and other security threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Due to the sensitive nature of the information contained on our networks, such as students' grades, our networks may be targeted by hackers. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

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

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

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

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

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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.

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We may experience business interruptions resulting from natural disasters, inclement weather, transit disruptions, or other events in one or more of the geographic areas in which we operate. These events could cause us to close schools — temporarily or permanently — and could affect student recruiting opportunities in those locations, causing enrollment and revenues to decline.