

LINCOLN EDUCATIONAL SERVICES CORP  
Form 10-K  
March 14, 2011

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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Form 10-K

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

For the fiscal year ended December 31, 2010

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Commission File Number 000-51371

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LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

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

57-1150621  
(IRS Employer Identification No.)

200 Executive Drive, Suite 340  
West Orange, NJ 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:

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 21,405,966 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was \$440,748,840. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$20.59 per share on June 30, 2010. 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 10, 2011 was 22,417,758.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2011 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.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will 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,” “believes,” “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements.

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

- our failure to comply with the extensive 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 changes in applicable federal laws and regulations, including final rules that take effect during 2011 and other pending rulemaking by the U.S. Department of Education;
- uncertainties regarding our ability to comply with federal laws and regulations regarding the 90/10 rule and cohort default rates;
- risks associated with 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, 2010, we operated 45 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, business and information technology and hospitality services. For the year ended December 31, 2010, our health science program, our automotive technology program, our skilled trades program, our business and information technology program and our hospitality services program accounted for approximately 40%, 30%, 11%, 10%, and 9%, respectively, of our average enrollment. We had 29,221 students enrolled as of December 31, 2010 and our average enrollment for the year ended December 31, 2010 was 31,535 students, an increase of 13.4% from our average enrollment of 27,808 for the year ended December 31, 2009. For the year ended December 31, 2010, our revenues were \$639.5 million, which represented an increase of 15.7% from the year ended December 31, 2009. For more information relating to our revenues, profits and financial condition, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this Annual Report on Form 10-K. 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, for the year ended December 31, 2009 compared to the year ended December 31, 2008.

All of our schools operate under the Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, Nashville Auto-Diesel College and Euphoria Institute of Beauty Arts and Sciences brand 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.

## AVAILABLE INFORMATION

Our website is [www.lincolnedu.com](http://www.lincolnedu.com). We make available on this website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, annual proxy 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. In 2010, we moved our Paramus, New Jersey and Mount Laurel, New Jersey campuses into larger facilities and selectively added additional square feet at several other campuses.

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**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. In 2010, we entered into leases for new schools in Columbus, Ohio and Cleveland, Ohio, which we expect will open in 2011. 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 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, subsequently renamed Lincoln College of New England, or LCNE, on December 1, 2008. LCNE operates one campus in Southington, Connecticut, one campus in Suffield, Connecticut and one in Hartford, Connecticut, 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 students 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, in 2010, with the addition of LCNE, we launched our first regionally accredited online degree programs that we believe will make our online offerings more attractive and broaden our reach to students seeking a regionally accredited degree.

## 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 22 to 105 weeks to complete, with tuition ranging from \$8,500 to \$37,000. Our associate's degree programs typically take between 48 to 104 weeks to complete, with tuition ranging from \$18,000 to \$55,000. Our bachelor's degree programs typically take between 154 and 284 weeks to complete, with tuition ranging from \$55,000 to \$74,000. As of December 31, 2010, 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 bachelor's degree programs. In order to accommodate the schedules of our students and maximize classroom utilization, at some of our campuses we typically offer courses four to five days a week in three shifts per day and start new classes every month. Other campuses are structured more like a traditional college and start classes every quarter. 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, 2010 with the average number of students enrolled in each area of study for the year ended December 31, 2010:

Area of Study	Programs Offered			Average Enrollment	Percent of Total Enrollment
	Bachelor's	Associate's	Diploma or 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 Technology, Advanced Medical Coding & Billing	Medical Office 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	12,426	40%
Automotive	-	Automotive Technology, Master Certified Auto Service Management, Collision Repair & Refinishing Service Management, Diesel Technology, Master Certified Diesel & Truck Service Management	Automotive Mechanics, Master Certified Automotive Technology, Collision Repair & Refinishing Technology, Diesel & Truck Mechanics, Diesel Technology, Master Certified Diesel & Truck Technology, Master Certified Automotive w/Diesel Technology, Motorcycle Technology	9,569	30%

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Skilled Trades	-	Electronic Engineering Technology, HVAC, Electronics Systems Service Management	Electrical Technology, Electronics Engineering Technology, Electronics Systems Technician, Heating Ventilation and Air Conditioning Technology, Electrician, Welding Technology	3,568	11%
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Business and Information Technology	Business Management, Business Marketing, Criminal Justice, Funeral Service Management, Integrated Marketing Communication & Design, Information Management & Security, Human Resource Management	PC Systems & Networking Technology, 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, Computer Networking and Security	PC Support Technician, Criminal Justice, Network Communications and Information Systems, Business Office Technology, Computer Networking and Security	3,021	10%
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	2,951	9%
Total:				31,535	100%

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Health Sciences. For the year ended December 31, 2010, health sciences was our largest area of study, representing 40% of our total average student enrollment. Our health science programs are 24 to 104 weeks in length, with tuition rates of \$8,500 to \$55,000. 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, 2010, we offered health science programs at 26 of our Lincoln College of Technology and Lincoln Technical Institute schools.

Automotive Technology. Automotive technology represents our second largest area of study, with 30% of our total average student enrollment for the year ended December 31, 2010. Our automotive technology programs are 24 to 120 weeks in length, with tuition rates of \$11,000 to \$37,000. 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, 2010, six of our Lincoln Technical Institute schools and five of our Lincoln College of Technology schools offered 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, 2010, 11% of our total average student enrollment was in our skilled trades programs. Our skilled trades programs are 41 to 116 weeks in length, with tuition rates of \$17,000 to \$29,000. Our skilled trades programs include electrician, heating, ventilation and air conditioning repair, welding and electronic system technician. Graduates of our programs are qualified to obtain entry level employment positions such as electrician, cable installer, welder, wiring and heating, ventilating and air conditioning, or HVAC, installer. Our graduates are employed by a wide variety of employers, including residential and commercial construction, telecommunications installation companies and architectural firms. As of December 31, 2010, we offered skilled trades programs at 13 of our 29 Lincoln Technical Institute and Lincoln College of Technology campuses.

Business and Information Technology. For the year ended December 31, 2010, 10% 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 284 weeks in length, with tuition rates of \$12,000 to \$74,000. We have focused our current information technology, or IT, program offerings on those that are most in demand, such as our personal computer, or PC, systems technician, computer networking and security 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, 2010, we offered these programs at 21 of our campuses.

Hospitality Services. For the year ended December 31, 2010, 9% of our total average student enrollment was in our hospitality services programs. Our hospitality services programs are 22 to 132 weeks in length, with tuition rates of \$9,000 to \$55,000. Our hospitality programs include therapeutic massage, cosmetology and aesthetics. Graduates work in salons, spas or cruise ships or are self-employed. We offer massage programs at six campuses and cosmetology programs at five campuses. Our culinary graduates are employed by restaurants, hotels, cruise ships and bakeries. As of December 31, 2010, we offered culinary programs at six Lincoln Culinary schools.

## 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 inquiries incorporate integrated campaigns that direct potential students to the Lincoln website where they may request additional information on a program of interest. 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.

**Referrals.** Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented 20% to 25% 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.

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Recruiting. Our recruiting efforts are conducted by a group of approximately 460 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 2010, we recruited approximately 18% of our students directly out of high school.

Campus-Inquiries. When a potential student contacts us as a result of our marketing and outreach efforts, an admissions representative contacts the potential student to follow up on an individual basis. The admissions representative provides information on the programs of interest available at the campus location selected by the potential student and offers an appointment 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 assessment. 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 29,221 students enrolled as of December 31, 2010 and our average enrollment for the year ended December 31, 2010 was 31,535 students, an increase of 13.4% from December 31, 2009. 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%.

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 identify 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, we believe that 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 in an actual work environment. 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. 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, 2010, we had approximately 4,500 employees, including 1,173 full-time faculty and 866 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 2011 through 2016. We believe that we 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, 2010, approximately 83% (calculated based on c