Lincoln Educational Services Corporation and Subsidiaries

Consolidated Financial Statements as of December 31, 2017 and 2016 and for the Years Ended December 31, 2017, 2016 and 2015, required Supplemental Schedules and Independent Auditors' Reports

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Lincoln Educational Services Corporation
West Orange, New Jersey

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lincoln Educational Services Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln Educational Services Corporation and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information listed in the table of contents is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2018 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Deloitte & Touche LLP

March 9, 2018

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,563	$ 21,064
Restricted cash	7,189	6,399
Accounts receivable, less allowance of $12,806 and $12,375 at December 31, 2017 and 2016, respectively	15,791	15,383
Inventories	1,657	1,687
Prepaid income taxes and income taxes receivable	207	262
Assets held for sale	2,959	16,847
Prepaid expenses and other current assets	2,352	2,894
Total current assets	44,718	64,536
PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of $163,946 and $157,152 at December 31, 2017 and 2016, respectively	52,866	55,445
OTHER ASSETS:		
Noncurrent restricted cash	32,802	20,252
Noncurrent receivables, less allowance of $978 and $977 at December 31, 2017 and 2016, respectively	8,928	7,323
Deferred income taxes, net	424	-
Goodwill	14,536	14,536
Other assets, net	939	1,115
Total other assets	57,629	43,226
TOTAL	$ 155,213	$ 163,207

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Continued)

	December 31, 2017	December 31, 2016
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of credit agreement and term loan	$ -	$ 11,713
Unearned tuition	24,647	24,778
Accounts payable	10,508	13,748
Accrued expenses	11,771	15,368
Other short-term liabilities	558	653
Total current liabilities	47,484	66,260
NONCURRENT LIABILITIES:		
Long-term credit agreement and term loan	52,593	30,244
Pension plan liabilities	4,437	5,368
Accrued rent	4,338	5,666
Other long-term liabilities	548	743
Total liabilities	109,400	108,281
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2017 and 2016	-	-
Common stock, no par value - authorized 100,000,000 shares at December 31, 2017 and 2016, issued and outstanding 30,624,407 shares at December 31, 2017 and 30,685,017 shares at December 31, 2016	141,377	141,377
Additional paid-in capital	29,334	28,554
Treasury stock at cost - 5,910,541 shares at December 31, 2017 and 2016	(82,860)	(82,860)
Accumulated deficit	(37,528)	(26,044)
Accumulated other comprehensive loss	(4,510)	(6,101)
Total stockholders' equity	45,813	54,926
TOTAL	$ 155,213	$ 163,207

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2017	**2016**	**2015**
REVENUE	$ 261,853	$ 285,559	$ 306,102
COSTS AND EXPENSES:			
Educational services and facilities	129,413	144,426	151,647
Selling, general and administrative	138,779	148,447	151,797
(Gain) loss on sale of assets	(1,623)	233	1,738
Impairment of goodwill and long-lived assets	-	21,367	216
Total costs and expenses	266,569	314,473	305,398
OPERATING (LOSS) INCOME	(4,716)	(28,914)	704
OTHER:			
Interest income	56	155	52
Interest expense	(7,098)	(6,131)	(8,015)
Other income	-	6,786	4,151
LOSS BEFORE INCOME TAXES	(11,758)	(28,104)	(3,108)
(BENEFIT) PROVISION FOR INCOME TAXES	(274)	200	242
NET LOSS	$ (11,484)	$ (28,304)	$ (3,350)
Basic			
Net loss per share	$ (0.48)	$ (1.21)	$ (0.14)
Diluted			
Net loss per share	$ (0.48)	$ (1.21)	$ (0.14)
Weighted average number of common shares outstanding:			
Basic	23,906	23,453	23,167
Diluted	23,906	23,453	23,167

See notes to consolidated financial statements

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	December 31,		
	2017	**2016**	**2015**
Net loss	$ (11,484)	$ (28,304)	$ (3,350)
Other comprehensive income			
Employee pension plan adjustments	1,591	971	395
Comprehensive loss	$ (9,893)	$ (27,333)	$ (2,955)

See notes to consolidated financial statements

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
BALANCE - January 1, 2015	29,933,086	$ 141,377	$ 26,350	$ (82,860)	$ 5,610	$ (7,467)	$ 83,010
Net loss	-	-	-	-	(3,350)	-	(3,350)
Employee pension plan adjustments	-	-	-	-	-	395	395
Stock-based compensation expense							
Restricted stock	(119,791)	-	1,095	-	-	-	1,095
Stock options	-	-	33	-	-	-	33
Net share settlement for							
equity-based compensation	(85,740)	-	(186)	-	-	-	(186)
BALANCE - December 31, 2015	29,727,555	141,377	27,292	(82,860)	2,260	(7,072)	80,997
Net loss	-	-	-	-	(28,304)	-	(28,304)
Employee pension plan adjustments	-	-	-	-	-	971	971
Stock-based compensation expense							
Restricted stock	1,029,267	-	1,440	-	-	-	1,440
Net share settlement for							
equity-based compensation	(71,805)	-	(178)	-	-	-	(178)
BALANCE - December 31, 2016	30,685,017	141,377	28,554	(82,860)	(26,044)	(6,101)	54,926
Net loss	-	-	-	-	(11,484)	-	(11,484)
Employee pension plan adjustments	-	-	-	-	-	1,591	1,591
Stock-based compensation expense							
Restricted stock	128,810	-	1,220	-	-	-	1,220
Net share settlement for							
equity-based compensation	(189,420)	-	(440)	-	-	-	(440)
BALANCE - December 31, 2017	30,624,407	$ 141,377	$ 29,334	$ (82,860)	$ (37,528)	$ (4,510)	$ 45,813

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (11,484)	$ (28,304)	$ (3,350)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	8,702	11,066	14,506
Amortization of deferred finance costs	583	949	554
Write-off of deferred finance charges	2,161	-	-
Deferred income taxes	(424)	-	-
(Gain) loss on disposition of assets	(1,622)	223	1,738
Gain on capital lease termination, net	-	(6,710)	(3,062)
Impairment of goodwill and long-lived assets	-	21,367	216
Fixed asset donation	(19)	(123)	(20)
Provision for doubtful accounts	13,720	14,592	13,583
Stock-based compensation expense	1,220	1,440	1,128
Deferred rent	(1,312)	(489)	(638)
(Increase) decrease in assets:			
Accounts receivable	(15,733)	(15,700)	(13,216)
Inventories	30	201	9
Prepaid income taxes and income taxes receivable	55	87	530
Prepaid expenses and current assets	532	412	444
Other assets	(1,163)	(1,701)	(1,460)
Increase (decrease) in liabilities:			
Accounts payable	(3,193)	742	1,004
Accrued expenses	(3,613)	1,195	(450)
Unearned tuition	(131)	(6,854)	2,627
Other liabilities	370	1,500	194
Total adjustments	163	22,197	17,687
Net cash (used in) provided by operating activities	(11,321)	(6,107)	14,337
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(4,755)	(3,596)	(2,218)
Restricted cash	(790)	963	-
Proceeds from sale of property and equipment	15,462	451	451
Net cash provided by (used in) investing activities	9,917	(2,182)	(1,767)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	75,900	-	53,500
Payments on borrowings	(66,766)	(387)	(38,847)
Reclassifications of payments from borrowings from restricted cash	20,252	-	30,000
Reclassifications of proceeds from borrowings to restricted cash	(32,802)	(4,993)	(22,621)
Proceeds of borrowings to restricted cash	(5,000)	-	-
Payment of borrowings from restricted cash	5,000	-	-
Payment of deferred finance fees	(1,241)	(645)	(2,823)
Net share settlement for equity-based compensation	(440)	(178)	(186)
Payments under capital lease obligations	-	(2,864)	(5,472)
Net cash (used in) provided by financing activities	(5,097)	(9,067)	13,551
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,501)	(17,356)	26,121
CASH AND CASH EQUIVALENTS—Beginning of year	21,064	38,420	12,299
CASH AND CASH EQUIVALENTS—End of year	$ 14,563	$ 21,064	$ 38,420

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Continued)

	Year Ended December 31,		
	2017	2016	2015
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 2,790	$ 5,265	$ 7,159
Income taxes	$ 139	$ 150	$ 89
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Liabilities accrued for or noncash purchases of fixed assets	$ 1,447	$ 2,048	$ 979

See notes to consolidated financial statements.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017 AND 2016 AND FOR THE THREE YEARS ENDED DECEMBER 31, 2017

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activities— Lincoln Educational Services Corporation and its subsidiaries (collectively, the "Company", "we", "our" and "us", as applicable) provide diversified career-oriented post-secondary education to recent high school graduates and working adults. The Company, which currently operates 23 schools in 14 states, offers programs in automotive technology, skilled trades (which include HVAC, welding and computerized numerical control and electronic systems technology, among other programs), healthcare services (which include nursing, dental assistant, medical administrative assistant and pharmacy technician, among other programs), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and business and information technology (which includes information technology and criminal justice programs). The schools operate under Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, Lincoln Culinary Institute, and Euphoria Institute of Beauty Arts and Sciences and associated brand names. Most of the campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. Five of the campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. The Company's other campuses primarily attract students from their local communities and surrounding areas. All of the campuses are nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education (the "DOE") and applicable state education agencies and accrediting commissions which allow students to apply for and access federal student loans as well as other forms of financial aid.

The Company's business is organized into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions ("HOPS"), and (c) Transitional, which refers to businesses that have been or are currently being taught out. In November 2015, the Board of Directors of the Company approved a plan for the Company to divest the 18 campuses then comprising the HOPS segment due to a strategic shift in the Company's business strategy. The Company underwent an exhaustive process to divest the HOPS schools which proved successful in attracting various purchasers but, ultimately, did not result in a transaction that our Board believed would enhance shareholder value. By the end of 2017, we had strategically closed seven underperforming campuses leaving a total of 11 campuses remaining under the HOPS segment. The Company believes that the closures of the aforementioned campuses has positioned the HOPS segment and the Company to be more profitable going forward as well as maximizing returns for the Company's shareholders.

The combination of several factors, including the inability of a prospective buyer of the HOPS segment to close on the purchase, the improvements the Company has implemented in the HOPS segment operations, the closure of seven underperforming campuses and the change in the United States government administration, resulted in the Board reevaluating its divestiture plan and the determination that shareholder value would more likely be enhanced by continuing to operate our HOPS segment as revitalized. Consequently, the Board of Directors has abandoned the plan to divest the HOPS segment and the Company now intends to retain and continue to operate the remaining campuses in the HOPS segment. The results of operations of the campuses included in the HOPS segment are reflected as continuing operations in the consolidated financial statements.

In 2016, the Company completed the teach-out of its Hartford, Connecticut, Fern Park, Florida and Henderson (Green Valley), Nevada campuses, which originally operated in the HOPS segment. In 2017, the Company completed the teach-out of its Northeast Philadelphia, Pennsylvania; Center City Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools, which also were originally in our HOPS segment and all of which were taught out and closed by December 2017 and are included in the Transitional segment as of December 31, 2017.

On August 14, 2017, New England Institute of Technology at Palm Beach, Inc., a wholly-owned subsidiary of the Company, consummated the sale of the real property located at 2400 and 2410 Metrocentre Boulevard East, West Palm Beach, Florida, including the improvements and other personal property located thereon (the "West Palm Beach Property") to Tambone Companies, LLC ("Tambone"), pursuant to a previously disclosed purchase and sale agreement (the "West Palm Sale Agreement") entered into on March 14, 2017. Pursuant to the terms of the West Palm Sale Agreement, as subsequently amended, the purchase price for the West Palm Beach Property was $15.8 million. As a result, the Company recorded a gain on the sale in the amount of $1.5 million. As previously disclosed, the West Palm Beach Property served as collateral for a short term loan in the principal amount of $8.0 million obtained by the Company from its lender, Sterling National Bank, on April 28, 2017, which loan matured upon the earlier of the sale of the West Palm Beach Property or October 1, 2017. Accordingly, on August 14, 2017, concurrently with the consummation of the sale of the West Palm Beach Property, the Company repaid the term loan in an aggregate amount of $8.0 million, consisting of principal and accrued interest.

Liquidity—For the last several years, the Company and the proprietary school sector have faced deteriorating earnings. Government regulations have negatively impacted earnings by making it more difficult for potential students to obtain loans, which, when coupled with the overall economic environment, have discouraged potential students from enrolling in post-secondary schools. In light of these factors, the Company has incurred significant operating losses as a result of lower student population. Despite these challenges, the Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future. At December 31, 2017, the Company's sources of cash primarily included cash and cash equivalents of $54.5 million (of which $40.0 million is restricted) and $4.4 million of availability under the Company's revolving loan facility. Refer to Note 7 for more information on the Company's revolving loan facility. The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population.

In addition to the current sources of capital discussed above that provide short term liquidity, the Company has been making efforts to sell its Mangonia Park, Palm Beach County, Florida property and associated assets originally operated in the HOPS segment, which has been classified as held for sale.

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

Revenue Recognition—Revenues are derived primarily from programs taught at our schools. Tuition revenues, textbook sales and one-time fees, such as nonrefundable application fees and course material fees, are recognized on a straight-line basis over the length of the applicable program as the student proceeds through the program, which is the period of time from a student's start date through his or her graduation date, including internships or externships that take place prior to graduation, and we complete the performance of teaching the student which entitles us to the revenue. Other revenues, such as tool sales and contract training revenues are recognized as services are performed or goods are delivered. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition.

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

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

Restricted Cash—Restricted cash consists of deposits maintained at financial institutions under a cash collateral agreement pursuant to the Company's credit agreement and cash collateral for letters of credit. The amount of $32.8 million and $20.3 million for the years ended December 31, 2017 and 2016, respectively, of restricted cash is included in long-term assets on the consolidated balance sheet as the restriction is greater than one year. Refer to Note 7 for more information on the Company's revolving credit facility.

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

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

Changes in the allowance for uncollectible accounts for each of the three years ended December 31, 2017 are as follows:

Description	Balance at Beginning of Period	Charged to Expense	Accounts Written-off	Balance at End of Period
December 31, 2017				
Student receivable allowance	$ 14,794	$ 13,720	$ (14,730)	$ 13,784
December 31, 2016				
Student receivable allowance	$ 14,074	$ 14,592	$ (13,872)	$ 14,794
December 31, 2015				
Student receivable allowance	$ 14,849	$ 13,583	$ (14,358)	$ 14,074

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

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

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

Advertising Costs—Costs related to advertising are expensed as incurred and approximated $27.0 million, $28.0 million and $28.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are included in selling, general and administrative expenses in the consolidated statements of operations.

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

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

At December 31, 2017 and December 31, 2015, we conducted our annual test for goodwill impairment and determined we did not have an impairment. At December 31, 2016, we conducted our annual test for goodwill impairment and determined we had an impairment of $9.9 million. We concluded that as of September 30, 2015 there was an indicator of potential impairment as a result of a decrease in market capitalization and, accordingly, we tested goodwill for impairment. The test indicated that one of our reporting units was impaired, which resulted in a pre-tax non-cash charge of $0.2 million for the three months ended September 30, 2015.

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

The Company concluded that for the year ended December 31, 2017 and December 31, 2015, there was no long-lived asset impairment.

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

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company's cash balances with financial institutions typically exceed the Federal Deposit Insurance limit of $0.25 million. The Company's cash balances on deposit at December 31, 2017, exceeded the balance insured by the FDIC Corporation ("FDIC") by approximately $53.9 million. The Company has not experienced any losses to date on its invested cash.

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

With respect to student receivables, the Company had no significant concentrations of credit risk as of December 31, 2017 and 2016.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("GAAP') requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, the Company evaluates the estimates and assumptions, including those related to revenue recognition, bad debts, impairments, fixed assets, income taxes, benefit plans and certain accruals. Actual results could differ from those estimates.

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

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

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

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

In accordance with ASC 740, the Company assesses our deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable. A valuation allowance is required to be established or maintained when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. In accordance with ASC 740, our assessment considers whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. In evaluating the realizability of deferred income tax assets, the Company considered, among other things, historical levels of income, expected future income, the expected timing of the reversals of existing temporary reporting differences, and the expected impact of tax planning strategies that may be implemented to prevent the potential loss of future income tax benefits. Significant judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated financial position or results of operations. Changes in, among other things, income tax legislation, statutory income tax rates, or future income levels could materially impact the Company's valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods. See information regarding the impact of the Tax Cuts and Jobs Act in Note 10.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2017 and 2016, we did not record any interest and penalties expense associated with uncertain tax positions.

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

Reclassification—During the year ended December 31, 2017, the Company reclassified certain amounts previously included in held for sale to held for use in the 2016 Consolidated Balance Sheet. In addition, during the year ended December 31, 2017, the Company reclassified 2016 and 2015 amounts from discontinued operations to continuing operations in Consolidated Statements of Operations.

New Accounting Pronouncements

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

In March 2017, the FASB issued ASU 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of comprehensive income separately from the service cost component and outside a subtotal of operating income. The ASU is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The adoption of ASU 2017-07 had no impact on the Company's consolidated financial statements.

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

In November 2016, the FASB issued ASU 2016-18: "Statement of Cash Flows (Topic 230): Restricted Cash." This guidance was issued to address the disparity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments will require that the statement of cash flows explain the change during the period in total cash, cash equivalents and restricted cash. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments will be applied using a retrospective transition method to each period presented. The Company anticipates that the adoption will not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company anticipates that the adoption will not have a material impact on the Company's consolidated financial statements.

The Company prospectively adopted ASU 2016-09, "Improvements to Employee Share Based Payment Accounting," to the consolidated statement of operations for the recognition of tax benefits within the provision for taxes, which previously would have been recorded to additional paid-in capital. The impact for the year ended December 31, 2017 was $0. In addition, the Company retrospectively recognized no tax benefits within operating activities within the consolidated statements of cash flow for the year ended December 31, 2017 and 2016. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in the consolidated statements of cash flows, since such cash flows have historically been presented in financing activities. The treatment of forfeitures has not changed as the Company is electing to continue the current process of estimating the number of forfeitures. There was no cumulative effect adjustment required to retained earnings under the prospective method as of the beginning of the year because all tax benefits had been previously recognized when the tax deductions related to stock compensation were utilized to reduce tax payable. The Company is not recording deferred tax assets or tax losses as a result of the adoption of ASU 2016-09.

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

We adopted the new standard effective January 1, 2018 using the modified retrospective approach. The Company's revenue streams primarily consist of tuition and related services provided to students over the course of the program as well as other transactional revenue such as tools. Based on the Company's assessment, the analysis of the contract portfolio under Topic 606 results in the revenue for the majority of the Company's student contracts being recognized over time which is consistent with the Company's previous revenue recognition model. For all student contracts, there is continuous transfer of control to the student and the number of performance obligations under Topic 606 is consistent with those identified under the existing standard. The Company determined the impact of the adoption on revenue recognition for student contracts to be immaterial on its consolidated financial statements and disclosures.

In February 2016, the FASB issued guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statements of income. The guidance is effective for annual periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that the update will have on the Company's consolidated financial statements.

2. FINANCIAL AID AND REGULATORY COMPLIANCE

Financial Aid

The Company's schools and students participate in a variety of government-sponsored financial aid programs that assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as the Title IV Programs, which are administered by the U.S. Department of Education (the "DOE"). During the years ended December 31, 2017, 2016 and 2015, approximately 78%, 79% and 80% respectively, of net revenues on a cash basis were indirectly derived from funds distributed under Title IV Programs.

For the years ended December 31, 2017, 2016 and 2015, the Company calculated that no individual DOE reporting entity received more than 90% of its revenue, determined on a cash basis under DOE regulations, from the Title IV Program funds. The Company's calculations may be subject to review by the DOE. Under DOE regulations, a proprietary institution that derives more than 90% of its total revenue from the Title IV Programs for two consecutive fiscal years becomes immediately ineligible to participate in the Title IV Programs and may not reapply for eligibility until the end of two fiscal years. An institution with revenues exceeding 90% for a single fiscal year, will be placed on provisional certification and may be subject to other enforcement measures. If one of the Company's institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

Regulatory Compliance

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

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

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

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

For the 2017 fiscal year, the Company calculated its composite score to be 1.1. The score is subject to determination by the DOE once it receives and reviews the Company's audited financial statements for the 2017 fiscal year. The DOE has evaluated the financial responsibility of our institutions on a consolidated basis. The Company has submitted to the DOE our audited financial statements for the 2016 and 2015 fiscal year reflecting a composite score of 1.5 and 1.9, respectively, based upon its calculations.

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

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

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

3. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted income per share for the years ended December 31, 2017, 2016 and 2015, respectively were as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
Basic shares outstanding	23,906,395	23,453,427	23,166,977
Dilutive effect of stock options	-	-	-
Diluted shares outstanding	23,906,395	23,453,427	23,166,977

For the years ended December 31, 2017, 2016 and 2015, options to acquire 570,306; 773,078; and 119,722 shares, respectively, were excluded from the above table because the Company reported a net loss for the year and therefore their impact on reported loss per share would have been antidilutive.

For the years ended December 31, 2017, 2016 and 2015, options to acquire 167,667; 218,167; and 391,935 shares; respectively, were excluded from the above table because they have an exercise price that is greater than the average market price of the Company's common stock and, therefore, their impact on reported loss per share would have been antidilutive.

4. GOODWILL AND OTHER INTANGIBLES

Changes in the carrying amount of goodwill during the years ended December 31, 2017 and 2016 are as follows:

	Gross Goodwill Balance	Accumulated Impairment Losses	Net Goodwill Balance
Balance as of January 1, 2016	$ 117,176	$ 93,881	$ 23,295
Impairment	-	8,759	8,759
Balance as of December 31, 2016	117,176	102,640	14,536
Adjustments	-	-	-
Balance as of December 31, 2017	$ 117,176	$ 102,640	$ 14,536

As of December 31, 2017 and 2016 the goodwill balance of $14.5 million is related to the Transportation and Skilled Trades segment.

Intangible assets, which are included in other assets in the accompanying consolidated balance sheets, consisted of the following:

	Curriculum	Total
Gross carrying amount at January 1, 2017	$ 160	$ 160
Additions	-	-
Gross carrying amount at December 31, 2017	160	160
Accumulated amortization at January 1, 2017	128	128
Amortization	16	16
Accumulated amortization at December 31, 2017	144	144
Net carrying amount at December 31, 2017	$ 16	$ 16
Weighted average amortization period (years)	10	

	Trade Name	Curriculum	Total
Gross carrying amount at January 1, 2016	$ 310	$ 160	$ 470
Additions	-	-	-
Gross carrying amount at December 31, 2016	310	160	470
Accumulated amortization at January 1, 2016	308	112	420
Amortization	2	16	18
Accumulated amortization at December 31, 2016	310	128	438
Net carrying amount at December 31, 2016	$ -	$ 32	$ 32
Weighted average amortization period (years)	7	10	

Amortization of intangible assets for the years ended December 31, 2017, 2016 and 2015 was less than $0.1 million for each of the three years, respectively.

The following table summarizes the estimated future amortization expense:

Year Ending December 31,	
2018	$ 16

5. PROPERTY, EQUIPMENT AND FACILITIES

Property, equipment and facilities consist of the following:

	Useful life (years)	At December 31, 2017	2016
Land	-	$ 6,969	$ 6,969
Buildings and improvements	1-25	127,027	124,826
Equipment, furniture and fixtures	1-7	81,772	79,029
Vehicles	3	883	848
Construction in progress	-	161	925
		216,812	212,597
Less accumulated depreciation and amortization		(163,946)	(157,152)
		$ 52,866	$ 55,445

Depreciation and amortization expense of property, equipment and facilities was $8.7 million, $11.0 million and $10.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As discussed in Note 1, the Company sold two real properties in West Palm Beach, Florida in 2017 and the Company has been making efforts to sell its remaining Mangonia Park Palm Beach County, Florida property and associated assets originally operated in the HOPS segment, which has been classified as held for sale.

6. ACCRUED EXPENSES

Accrued expenses consist of the following:

	At December 31, 2017	At December 31, 2016
Accrued compensation and benefits	$ 3,114	$ 7,571
Accrued rent and real estate taxes	3,151	3,365
Other accrued expenses	5,506	4,432
	$ 11,771	$ 15,368

7. LONG-TERM DEBT

Long-term debt consist of the following:

	At December 31, 2017	At December 31, 2016
Credit agreement	$ 53,400	$ -
Term loan	-	44,267
Deferred financing fees	(807)	(2,310)
	52,593	41,957
Less current maturities	-	(11,713)
	$ 52,593	$ 30,244

On March 31, 2017, the Company entered into a secured revolving credit agreement (the "Credit Agreement") with Sterling National Bank (the "Bank") pursuant to which the Company obtained a credit facility in the aggregate principal amount of up to $55 million (the "Credit Facility"). The Credit Facility consists of (a) a $30 million loan facility ("Facility 1"), which is comprised of a $25 million revolving loan designated as "Tranche A" and a $5 million non-revolving loan designated as "Tranche B," which Tranche B was repaid during the quarter ended June 30, 2017 and (b) a $25 million revolving loan facility ("Facility 2"), which includes a sublimit amount for letters of credit of $10 million. The Credit Agreement was subsequently amended, on November 29, 2017, to provide the Company with an additional $15 million revolving credit loan ("Facility 3"), resulting in an increase in the aggregate availability under the Credit Facility to $65 million. The Credit Agreement was again amended on February 23, 2018, to, among other things, effect certain modifications to the financial covenants and other provisions of the Credit Agreement and to allow the Company to pursue the sale of certain real property assets. The February 23, 2018 amendment increased the interest rate for borrowings under Tranche A of Facility 1 to a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Prior to the most recent amendment of the Credit Agreement, revolving loans outstanding under Tranche A of Facility 1 bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.50% and (y) 6.00%.

The Credit Facility replaces a term loan facility (the "Prior Credit Facility") which was repaid and terminated concurrently with the effectiveness of the Credit Facility. The term of the Credit Facility is 38 months, maturing on May 31, 2020, except that the term Facility 3 will mature one year earlier, on May 31, 2019.

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

At the closing of the Credit Facility, the Company drew $25 million under Tranche A of Facility 1, which, pursuant to the terms of the Credit Agreement, was used to repay the Prior Credit Facility and to pay transaction costs associated with closing the Credit Facility. After the disbursements of such amounts, the Company retained approximately $1.8 million of the borrowed amount for working capital purposes.

Also, at closing, $5 million was drawn under Tranche B and, pursuant to the terms of the Credit Agreement, was deposited into an interest-bearing pledged account (the "Pledged Account") in the name of the Company maintained at the Bank in order to secure payment obligations of the Company with respect to the costs of remediation of any environmental contamination discovered at certain of the mortgaged properties based upon environmental studies undertaken at such properties. During the quarter ended June 30, 2017, the environmental studies were completed and revealed no environmental issues existing at the properties.

Accordingly, pursuant to the terms of the Credit Agreement, the $5 million in the Pledged Account was released and used to repay the non-revolving loan outstanding under Tranche B. Upon the repayment of Tranche B, the maximum principal amount of Facility 1 was permanently reduced to $25 million.

Pursuant to the terms of the Credit Agreement, all draws under Facility 2 for letters of credit or revolving loans and all draws under Facility 3 must be secured by cash collateral in an amount equal to 100% of the aggregate stated amount of the letters of credit issued and revolving loans outstanding through draws from Facility 1 or other available cash of the Company.

Accrued interest on each revolving loan will be payable monthly in arrears. Revolving loans under Tranche A of Facility 1 will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Prior to the February 23, 2018 amendment of the Credit Agreement, the per annum interest rate for revolving loans outstanding under Tranche A of Facility 1 was equal to the greater of (x) the Bank's prime rate plus 2.50% and (y) 6.00%. The amount borrowed under Tranche B of Facility 1 and revolving loans under Facility 2 and Facility 3 will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%.

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

The terms of the Credit Agreement provide that the Bank be paid an unused facility fee on the average daily unused balance of Facility 1 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears. In addition, the Company is required to maintain, on deposit in one or more non-interest bearing accounts, a minimum of $5 million in quarterly average aggregate balances. If in any quarter the required average aggregate account balance is not maintained, the Company is required to pay the Bank a fee of $12,500 for that quarter and, in the event that the Company terminates the Credit Facility or refinances with another lender within 18 months of closing, the Company is required to pay the Bank a breakage fee of $500,000.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants, including financial covenants that restrict capital expenditures, prohibit the incurrence of a net loss commencing on December 31, 2018 and require a minimum adjusted EBITDA and a minimum tangible net worth, which is an annual covenant, as well as events of default customary for facilities of this type. As of December 31, 2017, the Company is in compliance with all covenants.

In connection with the Credit Agreement, the Company paid the Bank an origination fee in the amount of $250,000 and other fees and reimbursements that are customary for facilities of this type. In connection with the February 23, 2018 amendment of the Credit Agreement, the Company paid to the Bank a modification fee in the amount of $50,000.

The Company incurred an early termination premium of approximately $1.8 million in connection with the termination of the Prior Credit Facility.

On April 28, 2017, the Company entered into an additional secured credit agreement with the Bank, pursuant to which the Company obtained a short term loan in the principal amount of $8 million, the proceeds of which were used for working capital and general corporate purposes. The loan, which had an interest rate equal to the greater of the Bank's prime rate plus 2.50% or 6.00%, was secured by two real property assets located in West Palm Beach, Florida at which schools operated by the Company were located and matured upon the earlier of October 1, 2017 and the date of the sale of the West Palm Beach, Florida property. The Company sold the two properties located in West Palm Beach, Florida to Tambone Companies, LLC in the third quarter of 2017 and subsequently repaid the $8 million.

As of December 31, 2017, the Company had $53.4 million outstanding under the Credit Facility; offset by $0.8 million of deferred finance fees. As of December 31, 2016, the Company had $44.3 million outstanding under the Prior Credit Facility; offset by $2.3 million of deferred finance fees, which were written-off. As of December 31, 2017 and December 31, 2016, there were letters of credit in the aggregate outstanding principal amount of $7.2 million and $6.2 million, respectively.

Scheduled maturities of long-term debt at December 31, 2017 are as follows:

Year ending December 31,		
2018	$	-
2019		-
2020		53,400
2021		-
2022		-
Thereafter		-
	$	53,400

8. STOCKHOLDERS' EQUITY

Restricted Stock

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

Under the LTIP, certain employees received awards of restricted shares of common stock based on service and performance. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant.

On May 13, 2016, performance-based shares were granted which vest over two years on March 15, 2017 and March 15, 2018 based upon the attainment of a financial responsibility ratio during each fiscal year ending December 31, 2016 and 2017. As of December 31, 2017 half of the shares have vested as the vesting criteria was achieved. There is no restriction on the right to vote or the right to receive dividends with respect to any of the restricted shares.

On December 18, 2014, performance-based shares were granted which vest over four years based upon the attainment of (i) a specified operating income margin during any one or more of the fiscal years in the period beginning January 1, 2015 and ending December 31, 2018 and (ii) the attainment of earnings before interest, taxes, depreciation and amortization targets during each of the fiscal years ended December 31, 2015 through 2018. As of December 31, 2017 half of the shares have vested as the vesting criteria was achieved. There is no restriction on the right to vote or the right to receive dividends with respect to any of the restricted shares.

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

In 2017, 2016 and 2015, the Company completed a net share settlement for 189,420, 71,805 and 85,740 restricted shares and stock options exercised, respectively, on behalf of certain employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP or exercise of the stock options. The net share settlement was in connection with income taxes incurred on restricted shares or stock option exercises that vested and were transferred to the employee during 2017, 2016 and/or 2015, creating taxable income for the employee. At the employees' request, the Company will pay these taxes on behalf of the employees in exchange for the employees returning an equivalent value of restricted shares or shares acquired upon the exercise of stock options to the Company. These transactions resulted in a decrease of approximately $0.4 million, $0.2 million and $0.2 million in 2017, 2016 and 2015, respectively, to equity as the cash payment of the taxes effectively was a repurchase of the restricted shares or shares acquired through the exercise of stock options granted in previous years.

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

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock outstanding at December 31, 2015	450,494	$ 3.69
Granted	1,105,487	1.67
Cancelled	(76,200)	2.98
Vested	(336,182)	3.33
Nonvested restricted stock outstanding at December 31, 2016	1,143,599	1.89
Granted	181,208	2.58
Cancelled	(52,398)	5.63
Vested	(664,415)	1.77
Nonvested restricted stock outstanding at December 31, 2017	607,994	1.90

The restricted stock expense for each of the years ended December 31, 2017, 2016 and 2015 was $1.2 million, $1.4 million and $1.1 million, respectively. The unrecognized restricted stock expense as of December 31, 2017 and 2016 was $0.3 million and $1.5 million, respectively. As of December 31, 2017, unrecognized restricted stock expense will be expensed over the weighted-average period of approximately 3 months. As of December 31, 2017, outstanding restricted shares under the LTIP had an aggregate intrinsic value of $1.2 million. For the year ended December 31, 2017 and 2016, respectively, 52,398 and 26,200 shares were cancelled as the performance criteria was not met.

Stock Options

During 2017, 2016 and 2015 there were no new stock option grants. The following is a summary of transactions pertaining to the option plans:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding January 1, 2015	424,167	$ 13.65	4.18 years	$ -
Cancelled	(178,000)	15.20		-
Outstanding December 31, 2015	246,167	12.52	3.98 years	-
Cancelled	(28,000)	15.76		-
Outstanding December 31, 2016	218,167	12.11	3.33 years	-
Cancelled	(50,500)	12.09		
Outstanding December 31, 2017	167,667	12.11	2.97 years	-
Vested as of December 31, 2017	167,667	12.11	2.97 years	-
Exercisable as of December 31, 2017	167,667	12.11	2.97 years	-

As of December 31, 2017, there are no unrecognized pre-tax compensation expense for unvested stock option awards.

The following table presents a summary of options outstanding at December 31, 2017:

	At December 31, 2017				
	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares	Contractual Weighted Average life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$4.00-$13.99	119,667	3.22	$ 8.79	119,667	$ 8.79
$14.00-$19.99	17,000	1.84	19.98	17,000	19.98
$20.00-$25.00	31,000	2.59	20.62	31,000	20.62
	167,667	2.97	12.11	167,667	12.11

9. PENSION PLAN

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

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

	Year Ended December 31,		
	2017	2016	2015
CHANGES IN BENEFIT OBLIGATIONS:			
Benefit obligation-beginning of year	$ 22,916	$ 23,341	$ 24,299
Service cost	29	28	28
Interest cost	840	888	884
Actuarial loss (gain)	721	(255)	(782)
Benefits paid	(1,014)	(1,086)	(1,088)
Benefit obligation at end of year	23,492	22,916	23,341
CHANGE IN PLAN ASSETS:			
Fair value of plan assets-beginning of year	17,548	17,792	19,000
Actual return on plan assets	2,521	842	(120)
Benefits paid	(1,014)	(1,086)	(1,088)
Fair value of plan assets-end of year	19,055	17,548	17,792
BENEFIT OBLIGATION IN EXCESS OF FAIR VALUE FUNDED STATUS:	$ (4,437)	$ (5,368)	$ (5,549)

For the year ended December 31, 2017, the actuarial loss of $0.7 million was due to the decrease in the discount rate from 3.81% to 3.36%.

Amounts recognized in the consolidated balance sheets consist of:

	At December 31,		
	2017	2016	2015
Noncurrent liabilities	$ (4,437)	$ (5,368)	$ (5,549)

Amounts recognized in accumulated other comprehensive loss consist of:

	Year Ended December 31, 2017	2016	2015
Accumulated loss	$ (6,876)	$ (8,467)	$ (9,438)
Deferred income taxes	2,366	2,366	2,366
Accumulated other comprehensive loss	$ (4,510)	$ (6,101)	$ (7,072)

The accumulated benefit obligation was $23.5 million and $22.9 million at December 31, 2017 and 2016, respectively.

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

	Year Ended December 31, 2017	2016	2015
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$ 29	$ 28	$ 28
Interest cost	840	888	884
Expected return on plan assets	(1,058)	(1,118)	(1,243)
Recognized net actuarial loss	850	991	976
Net periodic benefit cost	$ 661	$ 789	$ 645

The estimated net loss, transition obligation and prior service cost for the plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $0.7 million.

The following tables present plan assets using the fair value hierarchy as of December 31, 2017 and 2016. The fair value hierarchy has three levels based on the reliability of inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using observable prices that are based on inputs not quoted in active markets but observable by market data, while Level 3 includes the fair values estimated using significant non-observable inputs. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	$ 8,509	$ -	$ -	$ 8,509
Fixed income	6,548	-	-	6,548
International equities	2,484	-	-	2,484
Cash and equivalents	7	-	-	7
Balance at December 31, 2016	$ 17,548	$ -	$ -	$ 17,548

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

	2017	2016	2015
Equity securities	36%	49%	48%
Fixed income	36%	37%	33%
International equities	18%	14%	19%
Real estate	6%	0%	0%
Cash and equivalents	4%	0%	0%
Total	100%	100%	100%

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

	2017	2016	2015
Discount rate	3.36%	3.81%	3.94%
Rate of compensation increase	2.50%	2.50%	2.50%

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

	2017	2016	2015
Discount rate	3.36%	3.81%	3.94%
Rate of compensation increase	2.50%	2.50%	2.50%
Long-term rate of return	6.00%	6.25%	6.50%

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

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

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

The Company does not expect to make contributions to the plan in 2018. However after considering the funded status of the plan, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make additional contributions to the plan in any given year.

The total amount of the Company’s contributions paid under its pension plan was zero for the each of the years ended December 31, 2017 and 2016, respectively.

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

Year Ending December 31,		
2018	$	1,303
2019		1,334
2020		1,347
2021		1,364
2022		1,381
Years 2023-2027		6,969

The Company has a 401(k) defined contribution plan for all eligible employees. Employees may contribute up to 25% of their compensation into the plan. The Company may contribute up to an additional 30% of the employee's contributed amount up to 6% of compensation. For the years ended December 31, 2017, 2016 and 2015, the Company's expense for the 401(k) plan amounted to $0.1 million, $0.7 million and $0.7 million, respectively.

10. INCOME TAXES

Components of the provision for income taxes were as follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ -	$ -	$ -
State	150	200	242
Total	150	200	242
Deferred:			
Federal	(424)	-	-
State	-	-	-
Total	(424)	-	-
Total (benefit) provision	$ (274)	$ 200	$ 242

The components of the deferred tax assets are as follows:

	At December 31,	
	2017	2016
Noncurrent deferred tax assets (liabilities)		
Allowance for bad debts	$ 3,792	$ 5,904
Accrued rent	1,723	3,191
Accrued bonus	-	1,429
Accrued benefits	105	198
Stock-based compensation	387	557
Depreciation	15,520	20,372
Goodwill	594	1,959
Other intangibles	291	562
Pension plan liabilities	1,221	2,142
Net operating loss carryforwards	17,367	17,846
AMT credit	424	424
Total noncurrent deferred tax assets	41,424	54,584
Less valuation allowance	(41,000)	(54,584)
Noncurrent deferred tax assets, net of valuation allowance	$ 424	$ -

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

On the basis of this evaluation the Company believes it is not more likely than not that it will realize its net deferred tax assets. As a result, as of December 31, 2017 and 2016, the Company has recorded a valuation allowance of $41.0 million and $54.6 million, respectively, against its net deferred tax assets.

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

ASC 740, Income Taxes requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. However, due to the complexity and significance of the Tax Act's provisions, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

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

The Tax Act eliminates the corporate AMT and changes how existing corporate AMT credits can be realized either to offset regular tax liability or to be refunded. As a result of this change, the Company released the valuation allowance against corporate AMT credits deferred tax asset and recorded a deferred tax provision benefit of $0.4 million. Offsetting this benefit was $0.1 million of income tax expense from various minimal state tax expenses.

The Tax Act did not have a material impact on our financial statements because we are under a full valuation allowance and we do not have any significant offshore earnings from which to record the mandatory transition tax.

The Tax Act requires the Company to assess whether its valuation allowance analyses are affected by various aspects of the Tax Act. Since, as discussed herein, we have recorded provisional amounts related to certain portions of the Tax Act, any corresponding determination of the need for or change in a valuation allowance is also provisional. The Company's valuation allowance position did not change as a result of tax reform except for AMT credits which is discussed above and a reduction related to the change in the deferred tax rate.

The difference between the actual tax provision and the tax provision that would result from the use of the Federal statutory rate is as follows:

	Year Ended December 31,					
	2017		2016		2015	
Loss before taxes	$ (11,758)		$ (28,104)		$ (3,108)	
Expected tax benefit	$ (4,115)	35.0%	$ (9,836)	35.0%	$ 1,088	35.0%
State tax benefit (net of federal)	150	(1.3)	200	(0.7)	242	7.8
Valuation allowance	(13,920)	118.4	9,726	(34.6)	(1,228)	(39.5)
Federal tax reform - deferred rate change	17,671	(150.3)	-	-	-	-
Other	(60)	0.5	110	(0.4)	140	4.5
Total	$ (274)	2.3%	$ 200	-0.7%	$ 242	7.8%

As of December 31, 2017 and 2016, the Company has net operating loss ("NOL") carryforwards of $57.7 million and $39.7 million, respectively, which, if unused, will expire beginning in 2028 and ending in 2037. Utilization of the NOL carryforwards may be subject to a substantial limitation due to ownership change limitations that may occur in the future, as required by Section 382 of the

Internal Revenue Code of 1986, as amended (the "Code"), as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL and tax credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups.

As of December 31, 2017, 2016 and 2015, the Company no longer has any liability for uncertain tax positions. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The Company is no longer subject to U.S. federal income tax examinations for years before 2015 and, generally, is no longer subject to state and local income tax examinations by tax authorities for years before 2012.

11. FAIR VALUE

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

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

	December 31, 2016				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 21,064	$ 21,064	$ -	$ -	$ 21,064
Restricted cash	6,399	6,399	-	-	6,399
Prepaid expenses and other current assets	2,434	-	2,434	-	2,434
Noncurrent restricted cash	20,252	20,252	-	-	20,252
Financial Liabilities:					
Accrued expenses	$ 12,815	$ -	$ 12,815	$ -	$ 12,815
Other short term liabilities	653	-	653	-	653
Term loan	44,267	-	40,687	-	40,687

We estimate fair value of Facility 1 of the revolving credit facility based on a present value analysis utilizing aggregate market yields obtained from independent pricing sources for similar financial instruments.

The carrying value for Facility 2 and Facility 3 of the revolving credit facility approximates fair value due to the fact that the borrowings were made in close proximity to December 31, 2017.

The fair value of the Term loan is estimated based on a present value analysis utilizing aggregate market yields obtained from independent pricing sources for similar financial instruments.

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

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

12. SEGMENT REPORTING

The for-profit education industry has been impacted by numerous regulatory changes, the changing economy and an onslaught of negative media attention. As a result of these challenges, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over ten locations and exited its online business. In 2016, the Company ceased operations in Hartford, Connecticut; Fern Park, Florida; and Henderson (Green Valley), Nevada. In 2017, the Company completed the teach-outs of its Center City Philadelphia, Pennsylvania; Northeast Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts and Lowell, Massachusetts schools. All of these schools were previously included in our HOPS segment and are included in the Transitional segment as of December 31, 2017.

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

As a result of the regulatory environment, market forces and our strategic decisions, we now operate our business in three reportable segments: (a) the Transportation and Skilled Trades segment; (b) the Healthcare and Other Professions segment; and (c) the Transitional segment.

Our reportable segments have been determined based on a method by which we now evaluate performance and allocate resources. Each reportable segment represents a group of post-secondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segments to enhance operational alignment within each segment to more effectively execute our strategic plan. Each of the Company's schools is a reporting unit and an operating segment. Our operating segments are described below.

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

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

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

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

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

Summary financial information by reporting segment is as follows:

	For the Year Ended December 31,								
	Revenue						Operating (Loss) Income		
	2017	% of Total	2016	% of Total	2015	% of Total	2017	2016	2015
Transportation and Skilled Trades	$ 177,099	67.6%	$ 177,883	62.3%	$ 183,822	60.1%	$ 17,861	$ 21,278	$ 26,777
Healthcare and Other Professions	76,310	29.1%	77,152	27.0%	79,978	26.1%	2,318	(10,917)	5,386
Transitional	8,444	3.3%	30,524	10.7%	42,302	13.8%	(5,379)	(15,170)	(7,543)
Corporate	-	0.0%	-	0.0%	-	0.0%	(19,516)	(24,105)	(23,916)
Total	$ 261,853	100%	$ 285,559	100%	$ 306,102	100%	$ (4,716)	$ (28,914)	$ 704

	Total Assets	
	December 31, 2017	December 31, 2016
Transportation and Skilled Trades	$ 81,523	$ 83,320
Healthcare and Other Professions	9,373	7,506
Transitional	3,965	18,874
Corporate	60,352	53,507
Total	$ 155,213	$ 163,207

13. COMMITMENTS AND CONTINGENCIES

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

Year Ending December 31,	Operating Leases
2018	$ 19,347
2019	16,608
2020	12,386
2021	8,185
2022	6,022
Thereafter	15,860
	78,408
Less amount representing interest	-
	$ 78,408

Rent expense, included in operating expenses in the accompanying consolidated statements of operations for the three years ended December 31, 2017, 2016 and 2015 is $17.4 million, $20.7 million and $18.7 million, respectively.

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

Student Loans—At December 31, 2017, the Company had outstanding net loan commitments to its students to assist them in financing their education of approximately $38.5 million, net of interest.

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

The Company is party to an agreement with Snap-on Industrial ("Snap-on"), which expires on December 31, 2018. The Company has agreed to grant Snap-on exclusive rights to one automotive campus to display advertising and supply certain tools. The Company earns credits that are redeemable for certain tools and equipment based on the sales to students and to the Company.

Executive Employment Agreements—The Company entered into employment contracts with key executives that provide for continued salary payments if the executives are terminated for reasons other than cause, as defined in the agreements. The future employment contract commitments for such employees were approximately $3.4 million at December 31, 2017.

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

Surety Bonds—Each of the Company's campuses must be authorized by the applicable state education agency in which the campus is located to operate and to grant degrees, diplomas or certificates to its students. The campuses are subject to extensive, ongoing regulation by each of these states. In addition, the Company's campuses are required to be authorized by the applicable state education agencies of certain other states in which the campuses recruit students. The Company is required to post surety bonds on behalf of its campuses and education representatives with multiple states to maintain authorization to conduct its business. At December 31, 2017, the Company has posted surety bonds in the total amount of approximately $12.7 million.

14. RELATED PARTY

The Company has an agreement with Matco Tools, whereby Matco will provide to the Company, on an advance commission basis, credits in Matco-branded tools, tool storage, equipment, and diagnostics products. The chief executive officer of the parent company of Matco is considered an immediate family member of one of the Company's board members. The amount of the Company's purchases from this third party were $2.4 million and $1.0 million for the year ended December 31, 2017 and 2016, respectively. Management believes that its agreement with Matco is an arm's length transaction and on similar terms as would have been obtained from unaffiliated third parties.

15. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables have been updated to reflect changes in discontinued operations. Quarterly financial information for 2017 and 2016 is as follows:

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

	Quarter			
2016	**First**	**Second**	**Third**	**Fourth**
Revenue	$ 70,644	$ 68,080	$ 74,267	$ 72,568
Net loss	(6,068)	(3,138)	(471)	(18,628)
Basic				
Net loss per share	$ (0.26)	$ (0.13)	$ (0.02)	$ (0.79)
Diluted				
Net loss per share	$ (0.26)	$ (0.13)	$ (0.02)	$ (0.79)
Weighted average number of common shares outstanding:				
Basic	23,351	23,448	23,499	23,514
Diluted	23,351	23,448	23,499	23,514

Related Party Transactions

Lincoln Educational Services Corporation and subsidiaries participates in the Student Financial Aid (program) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). Lincoln Educational Services Corporation and subsidiaries must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed regardless of their materiality to the financial statements. There were no related party transactions for the year ended December 31, 2017 except as described below. This required information is presented for purposes of additional analysis and is not part of the basic financial statements.

The Company has an agreement with Matco Tools, whereby Matco will provide to the Company, on an advance commission basis, credits in Matco-branded tools, tool storage, equipment, and diagnostics products. The chief executive officer of the parent company of Matco is considered an immediate family member of one of the Company's board members. The amount of the Company's purchases from this third party were $2.4 million and $1.0 million for the year ended December 31, 2017 and 2016, respectively. Management believes that its agreement with Matco is an arm's length transaction and on similar terms as would have been obtained from unaffiliated third parties.

90/10 Ratio Calculation

Lincoln Educational Services Corporation and subsidiaries derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs, Lincoln Educational Services Corporation and subsidiaries must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. The failure of Lincoln Educational Services Corporation and subsidiaries to meet the 90 percent limitation for two consecutive years will result in the loss of Lincoln Educational Services Corporation and subsidiaries' ability to participate in SFA programs. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements. For the year ended December 31, 2017, the Lincoln Educational Services Corporation and subsidiaries had the following 90/10 percentages:

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

Supplemental Schedule - 90/10 Ratio Calculation
Year Ended December 31, 2017
(In dollars)

The Supplemental Schedule - 90/10 Ratio Calculation has been restated to list the components of the Student Title IV Revenue and theStudent Non-Title IV Revenue

	Edison & Branch Campuses (OPE ID#: 012461)	*Indianapolis & Branch Campuses (OPE ID#: 007938)*	*New Britain & Branch Campuses (OPE ID#: 007303)*	*Columbia Campus (OPE ID#: 007936)*	*Southington & Branch Campuses (OPE ID#: 009407)*
Numerator:					
Adjusted Student Title IV Revenue					
Subsidized Loans	$ 10,488,115	$ 23,755,526	$ 11,784,372	$ 1,983,338	$ 1,622,239
Unsubsidized Loans	14,804,263	26,931,716	15,566,462	2,574,484	2,410,876
Plus Loans	3,000,404	25,041,077	5,448,473	1,414,069	991,247
Federal Pell Grants	13,439,218	26,592,187	13,481,225	2,209,796	1,350,249
ACG Grants	-	-	-	-	-
Perkins	-	-	-	-	-
FSEOG Program Funds	423,460	695,415	218,073	65,250	71,846
Revenue Adj.	(1,702,937)	(7,588,188)	(1,658,218)	(605,269)	(172,671)
Adjusted Student Title IV Revenue	**40,452,523**	**95,427,734**	**44,840,386**	**7,641,668**	**6,273,786**
Title IV funds returned for a student under 34 C.F.R. 668.22 (withdrawal)	(2,859,162)	(7,328,465)	(3,109,250)	(615,852)	(277,331)
Adjusted Student Title IV Revenue	**$ 37,593,361**	**$ 88,099,269**	**$ 41,731,136**	**$ 7,025,816**	**$ 5,996,455**
Denominator:					
Adjusted Student Non-Title IV Revenue					
Student Payments	$ 6,581,730	$ 18,330,861	$ 7,593,754	$ 1,395,879	$ 1,365,449
State Grants	95,735	339,156	121,818	-	-
Alternative Loans	1,628,885	29,985	6,500	9,728	48,391
Agency Payments	-	15,498,196	2,724,460	751,543	251,066
Revenue Adj.	(1,149,748)	(4,215,925)	(1,301,960)	(238,173)	(196,705)
Adjusted Student Non-Title IV Revenue	**$ 7,156,602**	**$ 29,982,273**	**$ 9,144,573**	**$ 1,918,976**	**$ 1,468,201**
Revenue from Other Sources					
Activities conducted by the institution that are necessary for education and training	$ 220,485	$ -	$ -	$ -	$ -
Funds paid to the institution, students for education in qualified non-title IV eligible programs			-		
Allowable student payments + allowable amounts from AR or insitutional loan sales - any required payments under a recourse agreement			-		
Revenue from Other Sources	**$ 220,485**	**$ -**	**$ -**	**$ -**	**$ -**
Adjusted Student Title IV Revenue	**$ 37,593,361**	**$ 88,099,269**	**$ 41,731,136**	**$ 7,025,816**	**$ 5,996,455**
Adjusted Student Title IV Revenue + Adjusted Student Non-Title IV Revenue + Revenue from other Sources	**$ 44,970,448**	**$ 118,081,542**	**$ 50,875,710**	**$ 8,944,792**	**$ 7,464,657**
Percentage of revenue derived from Title IV HEA program funds	**83.6%**	**74.6%**	**82.0%**	**78.5%**	**80.3%**

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses	**2017**
REVENUE	$ 52,354
COSTS AND EXPENSES	
Educational services and facilities	28,941
Selling, general, and administrative	26,852
Total costs and expenses	55,793
OPERATING LOSS	(3,440)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	(3)
LOSS BEFORE INCOME TAXES	$ (3,442)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Philadelphia (Northeast) Campus	**2017**
REVENUE	$ 1,239
COSTS AND EXPENSES	
Educational services and facilities	1,048
Selling, general, and administrative	672
Total costs and expenses	1,721
OPERATING LOSS	(481)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (481)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Philadelphia (Center City) Campus	**2017**
REVENUE	$ 1,307
COSTS AND EXPENSES	
Educational services and facilities	1,638
Selling, general, and administrative	1,973
Total costs and expenses	3,611
OPERATING LOSS	(2,304)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (2,304)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - West Palm Beach Campus	**2017**
REVENUE	$ 1,602
COSTS AND EXPENSES	
Educational services and facilities	1,500
Selling, general, and administrative	1,034
Total costs and expenses	2,535
OPERATING LOSS	(933)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (933)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Edison Campus	**2017**
REVENUE	$ 5,795
COSTS AND EXPENSES	
Educational services and facilities	3,005
Selling, general, and administrative	2,891
Total costs and expenses	5,895
OPERATING LOSS	(101)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (101)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Moorestown Campus		**2017**
REVENUE	$	8,683
COSTS AND EXPENSES		
Educational services and facilities		3,931
Selling, general, and administrative		3,394
Total costs and expenses		7,325
OPERATING INCOME		1,358
OTHER INCOME		-
INTEREST INCOME		-
INTEREST EXPENSE		-
INCOME BEFORE INCOME TAXES	$	1,358

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Lincoln RI Campus	**2017**
REVENUE	$ 8,446
COSTS AND EXPENSES	
Educational services and facilities	3,735
Selling, general, and administrative	4,034
Total costs and expenses	7,769
OPERATING INCOME	677
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 677

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Brockton Campus	**2017**
REVENUE	$ 2,494
COSTS AND EXPENSES	
Educational services and facilities	1,703
Selling, general, and administrative	1,599
Total costs and expenses	3,302
OPERATING LOSS	(808)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (808)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Somerville Campus	**2017**
REVENUE	$ 3,514
COSTS AND EXPENSES	
Educational services and facilities	2,330
Selling, general, and administrative	2,349
Total costs and expenses	4,679
OPERATING LOSS	(1,165)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	(3)
LOSS BEFORE INCOME TAXES	$ (1,167)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Lowell Campus	**2017**
REVENUE	$ 1,802
COSTS AND EXPENSES	
Educational services and facilities	1,262
Selling, general, and administrative	1,390
Total costs and expenses	2,652
OPERATING LOSS	(851)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (851)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Marietta Campus	**2017**
REVENUE	$ 4,229
COSTS AND EXPENSES	
Educational services and facilities	2,004
Selling, general, and administrative	2,290
Total costs and expenses	4,294
OPERATING LOSS	(65)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (65)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Paramus Campus	**2017**
REVENUE	$ 7,516
COSTS AND EXPENSES	
Educational services and facilities	4,537
Selling, general, and administrative	3,291
Total costs and expenses	7,828
OPERATING LOSS	(312)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (312)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Edison and Branch Campuses - Summerlin Campus	**2017**
REVENUE	$ 5,727
COSTS AND EXPENSES	
Educational services and facilities	2,247
Selling, general, and administrative	1,936
Total costs and expenses	4,182
OPERATING INCOME	1,545
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 1,545

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses	**2017**
REVENUE	$ 134,618
COSTS AND EXPENSES	
Educational services and facilities	60,495
Selling, general, and administrative	55,560
Gain on sale of assets	(72)
Total costs and expenses	115,983
OPERATING INCOME	18,635
OTHER INCOME	-
INTEREST INCOME	18
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 18,653

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Indianapolis Campus	**2017**
REVENUE	$ 13,176
COSTS AND EXPENSES	
Educational services and facilities	8,235
Selling, general, and administrative	7,361
Gain on sale of assets	(70)
Total costs and expenses	15,526
OPERATING LOSS	(2,350)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (2,350)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Union Campus	**2017**
REVENUE	$ 21,198
COSTS AND EXPENSES	
Educational services and facilities	7,416
Selling, general, and administrative	7,992
Loss on sale of assets	1
Total costs and expenses	15,408
OPERATING INCOME	5,789
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 5,789

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Grand Prairie Campus	**2017**
REVENUE	$ 16,852
COSTS AND EXPENSES	
Educational services and facilities	7,604
Selling, general, and administrative	6,757
Total costs and expenses	14,361
OPERATING INCOME	2,491
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 2,491

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Mahwah Campus	**2017**
REVENUE	$ 15,419
COSTS AND EXPENSES	
Educational services and facilities	5,533
Selling, general, and administrative	4,423
Total costs and expenses	9,956
OPERATING INCOME	5,463
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 5,463

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Nashville Campus	**2017**
REVENUE	$ 31,943
COSTS AND EXPENSES	
Educational services and facilities	15,600
Selling, general, and administrative	13,369
Total costs and expenses	28,969
OPERATING INCOME	2,974
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 2,974

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Whitestone Campus	**2017**
REVENUE	$ 11,916
COSTS AND EXPENSES	
Educational services and facilities	5,363
Selling, general, and administrative	4,944
Total costs and expenses	10,307
OPERATING INCOME	1,609
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 1,609

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Whitestone Campus	**2017**
REVENUE	$ 11,916
COSTS AND EXPENSES	
Educational services and facilities	5,363
Selling, general, and administrative	4,944
Total costs and expenses	10,307
OPERATING INCOME	1,609
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 1,609

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - Denver Campus	**2017**
REVENUE	$ 18,265
COSTS AND EXPENSES	
Educational services and facilities	7,981
Selling, general, and administrative	8,616
Total costs and expenses	16,597
OPERATING INCOME	1,668
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 1,668

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Indianapolis and Branch Campuses - South Plainfield Campus	**2017**
REVENUE	$ 5,847
COSTS AND EXPENSES	
Educational services and facilities	2,764
Selling, general, and administrative	2,097
Gain on sale of assets	(4)
Total costs and expenses	4,858
OPERATING INCOME	989
OTHER INCOME	-
INTEREST INCOME	18
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 1,007

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses		**2017**
REVENUE	$	56,252
COSTS AND EXPENSES		
Educational services and facilities		29,566
Selling, general, and administrative		26,265
Gain on sale of assets		(10)
Total costs and expenses		55,821
OPERATING INCOME		431
OTHER INCOME		-
INTEREST INCOME		-
INTEREST EXPENSE		-
INCOME BEFORE INCOME TAXES	$	431

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - Philadelphia Campus	**2017**
REVENUE	$ 4,507
COSTS AND EXPENSES	
Educational services and facilities	2,022
Selling, general, and administrative	2,817
Total costs and expenses	4,839
OPERATING LOSS	(332)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ (332)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - Melrose Park Campus	**2017**
REVENUE	$ 11,825
COSTS AND EXPENSES	
Educational services and facilities	6,961
Selling, general, and administrative	4,946
Total costs and expenses	11,907
OPERATING LOSS	(82)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (82)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - East Windsor Campus	**2017**
REVENUE	$ 15,959
COSTS AND EXPENSES	
Educational services and facilities	8,243
Selling, general, and administrative	8,816
Gain on sale of assets	(10)
Total costs and expenses	17,050
OPERATING LOSS	(1,090)
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
LOSS BEFORE INCOME TAXES	$ (1,090)

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - New Britain	**2017**
REVENUE	$ 7,576
COSTS AND EXPENSES	
Educational services and facilities	3,779
Selling, general, and administrative	3,004
Total costs and expenses	6,782
OPERATING INCOME	794
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 794

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - Shelton Campus	**2017**
REVENUE	$ 9,034
COSTS AND EXPENSES	
Educational services and facilities	5,110
Selling, general, and administrative	3,262
Total costs and expenses	8,373
OPERATING INCOME	661
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 661

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

New Britain and Branch Campuses - Allentown Campus	**2017**
REVENUE	$ 7,350
COSTS AND EXPENSES	
Educational services and facilities	3,451
Selling, general, and administrative	3,419
Total costs and expenses	6,870
OPERATING INCOME	481
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	-
INCOME BEFORE INCOME TAXES	$ 481

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Columbia Campus	**2017**
REVENUE	$ 10,189
COSTS AND EXPENSES	
Educational services and facilities	4,680
Selling, general, and administrative	4,779
Total costs and expenses	9,459
OPERATING INCOME	730
OTHER INCOME	-
INTEREST INCOME	-
INTEREST EXPENSE	(2)
INCOME BEFORE INCOME TAXES	$ 728

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017
(In thousands)

Southington Campus		**2017**
REVENUE	$	8,440
COSTS AND EXPENSES		
Educational services and facilities		5,730
Selling, general, and administrative		4,260
Total costs and expenses		9,990
OPERATING LOSS		(1,550)
OTHER INCOME		-
INTEREST INCOME		-
INTEREST EXPENSE		-
LOSS BEFORE INCOME TAXES	$	(1,550)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lincoln Educational Services Corporation
West Orange, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lincoln Educational Services Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes to consolidated financial statements, and have issued our report thereon dated March 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

March 9, 2018