CAREER EDUCATION CORP
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

OR

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

Commission File Number: 0-23245

CAREER EDUCATION CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-3932190
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
231 N. Martingale Road	
Schaumburg, Illinois	60173
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (847) 781-3600

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

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

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

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

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

Number of shares of registrant's common stock, par value $0.01, outstanding as of October 31, 2016: 68,492,085

CAREER EDUCATION CORPORATION

FORM 10-Q

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

ASSETS	September 30, 2016 (unaudited)	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 55,659	$ 66,919
Restricted cash	1,375	49,821
Restricted short-term investments	9,597	-
Short-term investments	151,153	114,901
Total cash and cash equivalents, restricted cash and short-term investments	217,784	231,641
Student receivables, net of allowance for doubtful accounts of $19,304 and $18,013 as of September 30, 2016 and December 31, 2015, respectively	25,457	31,618
Receivables, other, net	876	5,194
Prepaid expenses	12,695	14,380
Inventories	1,829	3,353
Other current assets	954	2,523
Assets of discontinued operations	176	254
Total current assets	259,771	288,963
NON-CURRENT ASSETS:		
Property and equipment, net	45,213	58,249
Goodwill	87,356	87,356
Intangible assets, net	8,700	9,300
Student receivables, net of allowance for doubtful accounts of $1,754 and $2,216 as of September 30, 2016 and December 31, 2015, respectively	3,128	3,958
Deferred income tax assets, net	130,343	137,716
Other assets	8,328	16,562
Assets of discontinued operations	8,634	8,811
TOTAL ASSETS	$ 551,473	$ 610,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ -	$ 38,000
Accounts payable	16,000	25,906
Accrued expenses:		
Payroll and related benefits	33,075	38,789
Advertising and marketing costs	17,041	11,788
Income taxes	1,730	1,061
Other	25,599	24,082
Deferred tuition revenue	30,342	40,112
Liabilities of discontinued operations	7,004	13,067
Total current liabilities	130,791	192,805

NON-CURRENT LIABILITIES:		
Deferred rent obligations	35,664	45,927
Other liabilities	24,133	25,197
Liabilities of discontinued operations	5,862	9,376
Total non-current liabilities	65,659	80,500
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.01 par value; 300,000,000 shares authorized; 83,509,840 and 82,996,585 shares issued, 68,492,083 and 68,098,654 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	835	830
Additional paid-in capital	613,611	610,784
Accumulated other comprehensive income (loss)	87	(880)
Accumulated deficit	(43,354)	(57,518)
Cost of 15,017,757 and 14,897,931 shares in treasury as of September 30, 2016 and December 31, 2015, respectively	(216,156)	(215,606)
Total stockholders' equity	355,023	337,610
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 551,473	$ 610,915

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME

(In thousands, except per share amounts)

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
REVENUE:				
Tuition and registration fees	$166,819	$202,179	$546,036	$643,617
Other	806	1,305	3,101	3,709
Total revenue	167,625	203,484	549,137	647,326
OPERATING EXPENSES:				
Educational services and facilities	51,393	74,888	170,993	222,846
General and administrative	111,723	133,177	337,358	442,021
Depreciation and amortization	5,215	5,962	16,986	19,861
Asset impairment	-	33,446	237	50,837
Total operating expenses	168,331	247,473	525,574	735,565
Operating (loss) income	(706)	(43,989)	23,563	(88,239)
OTHER INCOME (EXPENSE):				
Interest income	334	164	900	548
Interest expense	(117)	(170)	(469)	(502)
Loss on sale of business	-	(715)	-	(1,632)
Miscellaneous income (expense)	10	54	(4)	(321)
Total other income (expense)	227	(667)	427	(1,907)
PRETAX (LOSS) INCOME	(479)	(44,656)	23,990	(90,146)
Provision for (benefit from) income taxes	21	35	8,776	(923)
(LOSS) INCOME FROM CONTINUING OPERATIONS	(500)	(44,691)	15,214	(89,223)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(186)	(544)	(1,050)	(1,616)
NET (LOSS) INCOME	(686)	(45,235)	14,164	(90,839)
OTHER COMPREHENSIVE INCOME, net of tax:				
Foreign currency translation adjustments	47	-	143	-
Unrealized gains on investments	370	81	824	233
Total other comprehensive income	417	81	967	233
COMPREHENSIVE (LOSS) INCOME	$(269)	$(45,154)	$15,131	$(90,606)
NET (LOSS) INCOME PER SHARE - BASIC and DILUTED:				
(Loss) income from continuing operations	$(0.01)	$(0.66)	$0.22	$(1.32)
Loss from discontinued operations	-	(0.01)	(0.01)	(0.02)
Net (loss) income per share	$(0.01)	$(0.67)	$0.21	$(1.34)
WEIGHTED AVERAGE SHARES OUTSTANDING:				

Basic	68,460	67,961	68,328	67,798
Diluted	68,460	67,961	68,889	67,798

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year to Date Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$14,164	$(90,839)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Asset impairment	237	50,837
Depreciation and amortization expense	16,986	19,861
Bad debt expense	23,201	15,526
Compensation expense related to share-based awards	2,251	2,453
Loss on sale of businesses, net	-	1,632
Gain on disposition of property and equipment	(438)	(10)
Deferred income taxes	7,373	-
Changes in operating assets and liabilities	(48,060)	(20,463)
Net cash provided by (used in) operating activities	15,714	(21,003)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(137,755)	(64,056)
Sales of available-for-sale investments	99,718	69,436
Purchases of property and equipment	(3,352)	(7,926)
Proceeds on the sale of assets	3,600	2,272
Payments of cash upon sale of businesses	(62)	(4,125)
Net cash used in investing activities	(37,851)	(4,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	581	1,082
Payment on borrowings	(38,000)	(10,000)
Change in restricted cash	48,446	9,250
Net cash provided by financing activities	11,027	332
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	(150)	178
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,260)	(24,892)
CASH AND CASH EQUIVALENTS, beginning of the period	66,919	93,832
CASH AND CASH EQUIVALENTS, end of the period	$55,659	$68,940

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Career Education's academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and hybrid learning programs. Our two universities – American InterContinental University ("AIU") and Colorado Technical University ("CTU") – provide degree programs through the master's or doctoral level as well as associate and bachelor's levels. Both universities predominantly serve students online with career-focused degree programs that are designed to meet the educational demands of today's busy adults. AIU and CTU continue to show innovation in higher education, advancing new personalized learning technologies like their intellipath™ adaptive learning platform. Career Education is committed to providing quality education that closes the gap between learners who seek to advance their careers and employers needing a qualified workforce.

Additionally, CEC is in the process of teaching out campuses within our Transitional Group and Culinary Arts segments. Students enrolled at these campuses are afforded the reasonable opportunity to complete their program of study prior to the final teach-out date.

A listing of individual campus locations and web links to Career Education's colleges, institutions and universities can be found at www.careered.com.

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "the Company" and "CEC" refer to Career Education Corporation and our wholly-owned subsidiaries. The terms "college," "institution" and "university" refer to an individual, branded, for-profit educational institution, owned by us and includes its campus locations. The term "campus" refers to an individual main or branch campus operated by one of our colleges, institutions or universities.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the quarter and year to date ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

The unaudited condensed consolidated financial statements presented herein include the accounts of Career Education Corporation and our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

Our reporting segments are determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280 – Segment Reporting and are based upon how the Company analyzes performance and makes decisions. We organize our business across four reporting segments: CTU, AIU (comprises University Group); Culinary Arts and Transitional Group (comprises Career Schools Group). Campuses included in our Transitional Group and Culinary Arts segments are currently being taught out and no longer enroll

new students. These campuses employ a gradual teach-out process, enabling them to continue to operate while current students have a reasonable opportunity to complete their course of study. All prior periods have been recast to reflect our segments on a comparable basis.

During the third quarter of 2016, the Company completed the teach-out of five Transitional Group campuses: Sanford-Brown Atlanta, Sanford-Brown Dallas, Sanford-Brown Ft. Lauderdale, Sanford-Brown Iselin and International Academy of Design & Technology Detroit, which continue to be reported within the Transitional Group as of September 30, 2016 in accordance with ASC Topic 360 – Property, Plant and Equipment, which limits discontinued operations reporting.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. The eight topics include debt prepayment or extinguishments costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. For all public business entities, ASU 2016-15 is effective for annual periods and interim periods beginning after December 15, 2017; early adoption is permitted for all organizations for annual periods and interim periods. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. For all public business entities, ASU 2016-13 is effective for annual periods and interim periods beginning after December 15, 2019; early adoption is permitted for all organizations for annual periods and interim periods beginning after December 15, 2018. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplified several aspects of accounting for share-based payment award transactions including income tax consequences, classification of excess tax benefits on the statement of cash flows, classification of employee taxes paid on the statement of cash flows when the employer withholds shares, forfeiture policy election and payroll minimum statutory tax withholding. For all public business entities, ASU 2016-09 is effective for annual periods and interim periods beginning after December 15, 2016. We are currently evaluating this guidance and believe the adoption will materially impact our results of operations, particularly related to the provision for (benefit from) income taxes, as well as the presentation of our financial condition and disclosures.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investments, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method was in effect during all previous periods. The amendments require an equity method investor to add the cost of acquisition and requires available-for-sale equity securities that qualify for the equity method of accounting to recognize earnings as unrealized holding gain or loss in accumulated other comprehensive income. For all entities, ASU 2016-07 is effective for annual periods and interim periods beginning after December 15, 2016. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The core principle of Topic 842 is that lessees should recognize the assets and liabilities that arise from leases. All leases create an asset and liability for the lessee in accordance with FASB Concept Statements No. 6 Elements of Financial Statements, and, therefore, recognition of those lease assets and liabilities represents an improvement over previous GAAP. The accounting applied for lessors largely remained unchanged. The amendment in this ASU requires recognition of a lease liability and a right to use asset at the commencement date. For all public business entities, ASU 2016-02 is effective for annual periods and interim periods beginning after December 15, 2018; early adoption is permitted. We are currently evaluating this guidance and believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in this ASU require an entity to measure in-scope inventory at the lower of cost and net realizable value, further clarifying consideration for net realizable value as estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU more closely aligns the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (“IFRS”). For public business entities, ASU 2015-11 is effective for annual periods and interim periods beginning after December 15, 2016. The amendment in this ASU is prospectively applied with earlier adoption permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance to an organization's management, intended to define management's responsibility to evaluate whether there is a substantial doubt about an organization's ability to continue as a going concern and to provide guidance regarding related footnote disclosure. In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. For all entities, ASU 2014-15 is effective for annual periods and interim periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is principles based guidance that can be applied to all contracts with customers, enhancing comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to

which the entity expects to be entitled in exchange for those goods and services. The guidance details the steps entities should apply to achieve the core principle. Subsequently, FASB issued four additional Updates to the guidance as follows: In August 2015, the FASB issued ASU 2015-14 approving a one-year deferral of the effective date for its new revenue standard for public and nonpublic entities reporting under US GAAP. In March 2016, the FASB issued ASU 2016-08, providing clarity to improve operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, to add further guidance on identifying performance obligations and the licensing implementation while retaining the related core principles for those areas. In May 2016, the FASB issued ASU 2016-12, amendments to provide clarity on the objective of the collectability criterion, permit an entity to exclude amounts collected from customers for all sales taxes from the transaction price, specify a measurement date for non-cash consideration, provide a practical expedient permitting an entity to reflect the aggregate effect of all modifications, clarify a completed contract during transition and clarify disclosure requirements for retrospectively applied guidance in Topic 606. The standard will be effective for public business entities for annual reporting periods beginning after December 15, 2017 and interim periods therein. Nonpublic entities would be required to adopt the new standard for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Additionally, the FASB approved the option to early adopt prior to the original effective date (fiscal years beginning after December 15, 2016). We are currently evaluating the impact that the adoption of ASU 2014-09 will have on the presentation of our financial condition, results of operations and disclosures.

4. DISCONTINUED OPERATIONS

As of September 30, 2016, the results of operations for campuses that have ceased operations prior to 2015 are presented within discontinued operations. Prior to January 1, 2015, our Transitional Group campuses met the criteria for discontinued operations upon completion of their teach-out. Commencing January 1, 2015, in accordance with new guidance under ASC Topic 360, only campuses that meet the criteria of a strategic shift upon disposal will be classified within discontinued operations, among other criteria. Since the January 2015 effective date of the updated guidance within ASC Topic 360, we have not had any campuses that met the criteria to be considered a discontinued operation.

Results of Discontinued Operations

The summary of unaudited results of operations for our discontinued operations for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
Revenue	$-	$3	$-	$6
Total operating expenses	$295	$547	$1,676	$1,636
Loss before income tax	$(295)	$(544)	$(1,676)	$(1,616)
Benefit from income tax	(109)	-	(626)	-
Loss from discontinued operations, net of tax	$(186)	$(544)	$(1,050)	$(1,616)
Net loss per share - Basic and Diluted	$-	$(0.01)	$(0.01)	$(0.02)

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 include the following (dollars in thousands):

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	September 30, 2016	December 31, 2015
Assets:		
Current assets:		
Receivables, net	$ 176	$ 254
Total current assets	176	254
Non-current assets:		
Other assets, net	543	720
Deferred income tax assets, net	8,091	8,091
Total assets of discontinued operations	$ 8,810	$ 9,065
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 81	$ 528
Remaining lease obligations	6,923	12,539
Total current liabilities	7,004	13,067
Non-current liabilities:		
Remaining lease obligations	5,698	9,212
Other	164	164
Total liabilities of discontinued operations	$ 12,866	$ 22,443

Remaining Lease Obligations of Discontinued Operations

A number of the campuses that ceased operations prior to January 1, 2015 have remaining lease obligations that expire over time with the latest expiration in 2020. A liability is recorded representing the fair value of the remaining lease obligation at the time the space is no longer being utilized. Changes in our future remaining lease obligations, which are reflected within current and non-current liabilities of discontinued operations on our condensed consolidated balance sheets, for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred [(1)]	Net Cash Payments	Other	Balance, End of Period
For the quarter ended September 30, 2016	$ 16,149	$ (479)	$ (3,049)	$ -	$ 12,621
For the quarter ended September 30, 2015	$ 27,993	$ (151)	$ (3,275)	$ 50	$ 24,617
For the year to date ended September 30, 2016	$ 21,751	$ (78)	$ (9,052)	$ -	$ 12,621
For the year to date ended September 30, 2015	$ 37,616	$ (564)	$ (12,485)	$ 50	$ 24,617

(1) Includes charges for vacated spaces and subsequent adjustments for accretion, revised estimates and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

5. FINANCIAL INSTRUMENTS

Investments consist of the following as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	September 30, 2016			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$2,250	$-	$ -	$2,250
Non-governmental debt securities	108,987	37	(67)	108,957
Treasury and federal agencies	39,946	23	(23)	39,946
Total short-term investments	151,183	60	(90)	151,153
Restricted short-term investments (available for sale):				
Non-governmental debt securities	9,597	-	-	9,597
Total investments (available for sale)	$160,780	$60	$ (90)	$160,750

	December 31, 2015			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$1,500	$-	$(11)	$1,489
Non-governmental debt securities	76,999	-	(242)	76,757
Treasury and federal agencies	36,779	3	(127)	36,655
Total short-term investments	115,278	3	(380)	114,901
Long-term investments (available for sale):				
Municipal bond	7,850	-	(476)	7,374
Total investments (available for sale)	$123,128	$3	$(856)	$122,275

In the table above, unrealized holding gains (losses) as of September 30, 2016 relate to short-term investments that have been in a continuous unrealized gain (loss) position for less than one year.

Our unrestricted non-governmental debt securities primarily consist of corporate bonds and commercial paper. Our treasury and federal agencies primarily consist of U.S. Treasury bills and federal home loan debt securities. We do not intend to sell our investments in these securities and it is not likely that we will be required to sell these investments before recovery of the amortized cost basis.

Our restricted short-term investments are comprised entirely of certificates of deposit, which secure our letters of credit. Prior to the second quarter of 2016, these funds were held as cash by the letter of credit issuer and reported by the Company as restricted cash on our condensed consolidated balance sheets.

During the third quarter of 2016, our long-term municipal bond investment was called by the issuer at face value. The cumulative unrealized loss of $0.5 million was subsequently reversed out of accumulated other comprehensive loss, a component of stockholders' equity during the current year quarter.

Fair Value Measurements

FASB ASC Topic 820 – Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of September 30, 2016, we held investments that are required to be measured at fair value on a recurring basis. These investments (available-for-sale) consist of municipal bonds, non-governmental debt securities, and treasury and federal agencies securities. Available for sale securities included in Level 1 are valued at quoted prices in active markets for identical assets and liabilities. Available for sale securities included in Level 2 are estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in inactive markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of FASB ASC Topic 820 – Fair Value Measurements at September 30, 2016 and December 31, 2015 were as follows (dollars in thousands):

	As of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$-	$2,250	$-	$2,250
Non-governmental debt securities	35,368	83,186	-	118,554
Treasury and federal agencies	-	39,946	-	39,946
Totals	$35,368	$125,382	$-	$160,750

	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$-	$1,489	$7,374	$8,863
Non-governmental debt securities	-	76,757	-	76,757
Treasury and federal agencies	-	36,655	-	36,655
Totals	$-	$114,901	$7,374	$122,275

Equity Method Investment

Our investment in an equity affiliate, which is recorded within other noncurrent assets on our condensed consolidated balance sheets, represents an international investment in a private company. As of September 30, 2016, our investment in an equity affiliate equated to a 30.7%, or $3.3 million, non-controlling interest in CCKF, a Dublin-based educational technology company providing intelligent adaptive systems to power the delivery of individualized and personalized learning.

During the quarters ended September 30, 2016 and 2015, we recorded approximately $0.2 million and less than $0.1 million of loss, respectively, and during the years to date ended September 30, 2016 and September 30, 2015, we recorded approximately $1.0 million and $0.2 million of loss, respectively, related to our proportionate investment in CCKF within miscellaneous (expense) income on our unaudited condensed consolidated statements of (loss) income and comprehensive (loss) income.

We make periodic operating maintenance payments for our use of intellipath™. The total fees paid to CCKF for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	Maintenance Fee Payments
For the quarter ended September 30, 2016	$ 340
For the quarter ended September 30, 2015	$ 337
For the year to date ended September 30, 2016	$ 1,027
For the year to date ended September 30, 2015	$ 1,036

Credit Agreement

During the fourth quarter of 2015, the Company; its wholly-owned subsidiary, CEC Educational Services, LLC (“CEC-ES”); and the subsidiary guarantors thereunder entered into a Fourth Amendment to its Amended and Restated Credit Agreement dated as of December 30, 2013 (as amended, the “Credit Agreement”) with BMO Harris Bank N.A., in its capacities as the initial lender and letter of credit issuer thereunder and the administrative agent for the lenders which from time to time may be parties to the Credit Agreement, to among other things, decrease the revolving credit facility to $95.0 million and require pre-approval by the lenders for each credit extension (other than letter of credit extensions) occurring after December 31, 2015. The revolving credit facility under the Credit Agreement is scheduled to mature on December 31, 2018. The loans and letter of credit obligations under the Credit Agreement are required to be secured by 100% cash collateral. As of September 30, 2016, there were no outstanding borrowings under the revolving credit facility.

6. STUDENT RECEIVABLES

Student receivables represent funds owed to us in exchange for the educational services provided to a student. Student receivables are reflected net of an allowance for doubtful accounts and net of deferred tuition revenue as determined on a student-by-student basis at the end of the reporting period. Student receivables, net are reflected on our condensed consolidated balance sheets as components of both current and non-current assets. We do not accrue interest on past due student receivables; interest is recorded only upon collection.

Generally, a student receivable balance is written off once it reaches greater than 90 days past due. Although we analyze past due receivables, it is not practical to provide an aging of our non-current student receivable balances as a result of the methodology utilized in determining our earned student receivable balances. Student receivables are recognized on our condensed consolidated balance sheets as they are deemed earned over the course of a student's program and/or term, and therefore cash collections are not applied against specifically dated transactions.

Our standard student receivable allowance estimation methodology considers a number of factors that, based on our collection experience, we believe have an impact on our repayment risk and ability to collect student receivables. Changes in the trends in any of these factors may impact our estimate of the allowance for doubtful accounts. These factors include, but are not limited to: internal repayment history, repayment practices of previous extended payment programs, changes in the current economic, legislative or regulatory environments and the ability to complete the federal financial aid process with the student. These factors are monitored and assessed on a regular basis. Overall, our allowance estimation process for student receivables is validated by trending analysis and comparing estimated and actual performance.

Student Receivables Under Extended Payment Plans and Recourse Loan Agreements

To assist students in completing their educational programs, we had previously provided extended payment plans to certain students and also had loan agreements with Sallie Mae and Stillwater National Bank and Trust Company ("Stillwater") which required us to repurchase loans originated by them to our students after a certain period of time. We discontinued providing extended payment

plans to students during the first quarter of 2011 and the recourse loan agreements with Sallie Mae and Stillwater ended in March 2008 and April 2007, respectively.

As of September 30, 2016 and December 31, 2015, the amount of non-current student receivables under these programs, net of allowance for doubtful accounts, was $3.1 million and $4.0 million, respectively.

Student Receivables Valuation Allowance

Changes in our current and non-current receivables allowance for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges to Expense [1]	Amounts Written-off	Balance, End of Period
For the quarter ended September 30, 2016	$ 21,008	$ 8,457	$ (8,407)	$ 21,058
For the quarter ended September 30, 2015	$ 18,503	$ 6,428	$ (6,213)	$ 18,718
For the year to date ended September 30, 2016	$ 20,229	$ 23,332	$ (22,503)	$ 21,058
For the year to date ended September 30, 2015	$ 19,097	$ 15,653	$ (16,032)	$ 18,718

(1) Charges to expense include an offset for recoveries of amounts previously written off of $1.3 million and $1.4 million for the quarters ended September 30, 2016 and 2015, respectively, and $4.9 million and $5.1 million for the years to date ended September 30, 2016 and 2015, respectively.

Fair Value Measurements

The carrying amount reported in our condensed consolidated balance sheets for the current portion of student receivables approximates fair value because of the nature of these financial instruments as they generally have short maturity periods. It is not practicable to estimate the fair value of the non-current portion of student receivables, since observable market data is not readily available, and no reasonable estimation methodology exists.

7. RESTRUCTURING CHARGES

During the past several years, we have carried out reductions in force related to the continued reorganization of our corporate and campus functions to better align with current total enrollments and made decisions to teach out a number of campuses, meaning gradually close the campuses through an orderly process. As part of the process to wind down these teach-out campuses, the Company also announced that it will align its corporate overhead to support a more streamlined and focused operating entity. Most notably, we have recorded charges within our Transitional Group and Culinary Arts segments and our corporate functions as we continue to align our overall management structure. Each of our teach-out campuses offer current students the reasonable opportunity to complete their course of study. The majority of these teach-out campuses are expected to cease operations by 2017 with the remainder expected to cease operations in 2018.

The following table details the changes in our accrual for severance and related costs associated with all restructuring events for our continuing operations during the quarters and years to date ended September 30, 2016 and 2015 (dollars

in thousands):

	Balance, Beginning of Period	Severance & Related Charges (1) (2)	Payments	Non-cash Adjustments (3)	Balance, End of Period
For the quarter ended September 30, 2016	$ 11,290	$ 117	$ (1,546)	$ 240	$ 10,101
For the quarter ended September 30, 2015	$ 12,863	$ 52	$ (2,335)	$ (830)	$ 9,750
For the year to date ended September 30, 2016	$ 18,985	$ 389	$ (9,176)	$ (97)	$ 10,101
For the year to date ended September 30, 2015	$ 2,712	$ 13,697	$ (5,399)	$ (1,260)	$ 9,750

(1) Includes charges related to COBRA and outplacement services which are assumed to be completed by the third month following an employee's departure.
(2) Severance payments will result in future cash expenditures through 2018.
(3) Includes cancellations due to employee departures prior to agreed upon end dates, employee transfers to open positions within the organization and subsequent adjustments to severance and related costs.

Severance and related expenses for the quarters and years to date ended September 30, 2016 and 2015 by reporting segment is as follows (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
CTU	$ -	$ 18	$ 18	$ 306
AIU	-	4	66	343
Total University Group	-	22	84	649
Corporate and Other	117	-	270	4,318
Subtotal	117	22	354	4,967
Culinary Arts	-	-	5	265
Transitional Group	-	30	30	8,465
Total	$ 117	$ 52	$ 389	$ 13,697

The current portion of the accrual for severance and related charges was $7.6 million as of September 30, 2016, which is recorded within current accrued expenses – payroll and related benefits; the long-term portion of $2.5 million is recorded within other non-current liabilities on our condensed consolidated balance sheet. In addition, as of September 30, 2016, we have accrued approximately $1.5 million related to retention bonuses that have been offered to certain employees. These amounts will be recorded ratably over the period the employees are retained.

In addition to the severance charges detailed above, a number of the teach-out campuses will have remaining lease obligations following the eventual campus closure, with the longest lease term being through 2023. The total remaining estimated charge as of September 30, 2016, for all restructuring events reported within continuing operations related to the remaining lease obligation for these leases, once the campus completes the close process, and adjusted for possible lease buyouts and sublease assumptions is approximately $40 million - $50 million. The amount related to each campus will be recorded at each campus closure date based on current estimates and assumptions related to the amount and timing of sublease income. This is in addition to approximately $34.6 million of charges related to remaining obligations that were recorded during 2015 through the third quarter of 2016.

Remaining Lease Obligations of Continuing Operations

We have recorded lease exit costs associated with the exit of real estate space for certain campuses related to our continuing operations. These costs are recorded within educational services and facilities expense on our unaudited condensed consolidated statements of (loss) income and comprehensive (loss) income. The current portion of the liability for these charges is reflected within other accrued expenses under current liabilities and the long-term portion of these charges are included in other liabilities under the non-current liabilities section of our condensed consolidated balance sheets. Changes in our future minimum lease obligations for exited space related to our continuing operations for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred [1]	Net Cash Payments	Other	Balance, End of Period

For the quarter ended September 30, 2016	$ 17,140	$ 4,912	$ (3,476)	$ 1,303	$ 19,879
For the quarter ended September 30, 2015	$ 5,480	$ 11,107	$ (6,399)	$ 2,242	$ 12,430
For the year to date ended September 30, 2016	$ 12,892	$ 13,994	$ (11,476)	$ 4,469	$ 19,879
For the year to date ended September 30, 2015	$ 7,094	$ 17,527	$ (16,112)	$ 3,921	$ 12,430

(1)Includes charges for newly vacated spaces and subsequent adjustments for accretion, revised estimates and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

8. CONTINGENCIES

An accrual for estimated legal fees and settlements of $2.6 million and $2.7 million at September 30, 2016 and December 31, 2015, respectively, is presented within other current liabilities on our condensed consolidated balance sheets.

We record a liability when we believe that it is both probable that a loss will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least quarterly, developments in our legal matters that could affect the amount of liability that was previously accrued, and make adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount. We may be unable to estimate a possible loss or range of possible loss due to various reasons, including, among others: (1) if the damages sought are indeterminate; (2) if the proceedings are in early stages; (3) if there is uncertainty as to the

outcome of pending appeals, motions, or settlements; (4) if there are significant factual issues to be determined or resolved; and (5) if there are novel or unsettled legal theories presented. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Litigation

We are, or were, a party to the following legal proceedings that we consider to be outside the scope of ordinary routine litigation incidental to our business. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of these matters. An unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, results of operations, cash flows and financial position.

Student Litigation

Surrett, et al. v. Western Culinary Institute, Ltd. and Career Education Corporation. On March 5, 2008, a complaint was filed in Portland, Oregon in the Circuit Court of the State of Oregon in and for Multnomah County naming Western Culinary Institute, Ltd. ("WCI") and the Company as defendants. Plaintiffs filed the complaint individually and as a putative class action and alleged two claims for equitable relief: violation of Oregon's Unlawful Trade Practices Act ("UTPA") and unjust enrichment. Plaintiffs filed an amended complaint on April 10, 2008, which added two claims for money damages: fraud and breach of contract. Plaintiffs allege WCI made a variety of misrepresentations to them, relating generally to WCI's placement statistics, students' employment prospects upon graduation from WCI, the value and quality of an education at WCI, and the amount of tuition students could expect to pay as compared to salaries they could expect to earn after graduation. WCI subsequently moved to dismiss certain of plaintiffs' claims under Oregon's UTPA; that motion was granted on September 12, 2008. On February 5, 2010, the Court entered a formal Order granting class certification on part of plaintiff's UTPA and fraud claims purportedly based on omissions, denying certification of the rest of those claims and denying certification of the breach of contract and unjust enrichment claims. The class consists of students who enrolled at WCI between March 5, 2006 and March 1, 2010, excluding those who dropped out or were dismissed from the school for academic reasons.

Plaintiffs filed a fifth amended complaint on December 7, 2010, which included individual and class allegations by Nathan Surrett. Class notice was sent on April 22, 2011, and the opt-out period expired on June 20, 2011. The class consisted of approximately 2,600 members. They are seeking tuition refunds, interest and certain fees paid in connection with their enrollment at WCI.

On May 23, 2012, WCI filed a motion to compel arbitration of claims by 1,062 individual class members who signed enrollment agreements containing express class action waivers. The Court issued an Order denying the motion on July 27, 2012. On August 6, 2012, WCI filed an appeal from the Court's Order and on August 30, 2012, the Court of Appeals issued an Order granting WCI's motion to compel the trial court to cease exercising jurisdiction in the case. The oral argument on the appeal was heard on May 9, 2014 and on January 21, 2016, the appellate court reversed the trial court and held that the claims by the 1,062 individual class members referenced above should be compelled to arbitration. The case has been remanded back to the trial court for further proceedings.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because of the inherent difficulty in assessing the appropriate measure of damages and the number of class members who might be entitled to recover damages, if we were to be found liable. Accordingly, we have not recognized any liability associated with this action.

False Claims Act

United States of America, ex rel. Melissa Simms Powell, et al. v. American InterContinental University, Inc., a Georgia Corporation, Career Education Corp., a Delaware Corporation and John Doe Nos. 1-100. On July 28, 2009,

we were served with a complaint filed in the U.S. District Court for the Northern District of Georgia, Atlanta Division. The complaint was originally filed under seal on July 14, 2008 by four former employees of the Dunwoody campus of our American InterContinental University on behalf of themselves and the federal government. On July 27, 2009, the Court ordered the complaint unsealed and we were notified that the U.S. Department of Justice declined to intervene in the action. When the federal government declines to intervene in a False Claims Act action, as it has done in this case, the private plaintiffs (or "relators") may elect to pursue the litigation on behalf of the federal government and, if they are successful, receive a portion of the federal government's recovery. The action alleges violations of the False Claims Act and promissory fraud, including allegedly providing false certifications to the federal government regarding compliance with certain provisions of the Higher Education Act and accreditation standards. Relators claim that defendants' conduct caused the government to pay federal funds to defendants and to make payments to third-party lenders, which the government would not have made if not for defendants' alleged violation of the law. Relators seek treble damages plus civil penalties and attorneys' fees. On July 12, 2012, the Court granted our motion to dismiss for a lack of jurisdiction, the claims related to incentive compensation and proof of graduation. Thus, the only claim that remained pending against defendants was based on relators' contention that defendants misled the school's accreditor, Southern Association of Colleges and Schools, during the accreditation process. On December 16,

2013, we filed a motion for summary judgment on a variety of substantive grounds. On September 29, 2014, the Court granted our motion for summary judgment and entered judgment in our favor. On October 2, 2014, relators filed a notice of appeal. The appeal was stayed pending the United States Supreme Court's decision in Kellogg Brown & Root Servs., Inc. v. U.S. ex rel. Carter, No. 12-1497. The Supreme Court issued its decision and the case was remanded to the district court. After considering additional arguments regarding whether it has jurisdiction over relators' remaining claims, on June 8, 2016, the district court issued an order finding that it does not have jurisdiction over the relators' proof of graduation claim. The Court additionally found that it does not have jurisdiction over the incentive compensation claim as to three of the four relators, but that it does have jurisdiction over that claim with respect to the fourth relator. The Court ordered, and the parties submitted further briefing as to whether and to what extent the Court's June 8, 2016 order affected its September 29, 2014 order granting summary judgment to defendants on the accreditation claim. On September 20, 2016, the court held that all four relators could proceed with the accreditation claim and on October 28, 2016, the court set the case for trial on February 27, 2017.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because the complaint does not seek a specified amount of damages and it is unclear how damages would be calculated, if we were to be found liable. Moreover, the case presents novel legal issues. Accordingly, we have not recognized any liability associated with this action.

United States of America, ex rel. Brent M. Nelson v. Career Education Corporation, Sanford-Brown, Ltd., and Ultrasound Technical Services, Inc. On April 18, 2013, defendants were served with an amended complaint filed in the U.S. District Court for the Eastern District of Wisconsin. The original complaint was filed under seal on July 30, 2012 by a former employee of Sanford-Brown College Milwaukee on behalf of himself and the federal government. On February 27, 2013, the Court ordered the complaint unsealed and we were notified that the U.S. Department of Justice declined to intervene in the action. After the federal government declined to intervene in this case, the relator elected to pursue the litigation on behalf of the federal government. If he is successful he would receive a portion of the federal government's recovery. An amended complaint was filed by the relator on April 12, 2013 and alleges violations of the False Claims Act, including allegedly providing false certifications to the federal government regarding compliance with certain provisions of the Higher Education Act and accreditation standards. Relator claims that defendants' conduct caused the government to pay federal funds to defendants, and to make payments to third-party lenders, which the government would not have made if not for defendants' alleged violation of the law. Relator seeks treble damages plus civil penalties and attorneys' fees. On June 11, 2013, defendants filed a motion to dismiss the case on a variety of grounds. The Court ruled on that motion, dismissing CEC from the case and dismissing several of the relator's factual claims. On November 27, 2013, Sanford Brown, LTD., and Ultrasound Technical Services, Inc., the remaining Company defendants, filed a motion to dismiss the case for lack of subject matter jurisdiction due to prior public disclosures of the relator's alleged claims. On March 17, 2014, the Court granted this motion in part, limiting the timeframe and geographical scope of the relator's claims. On June 13, 2014, the Court granted the remaining Company defendants' motion for summary judgment and entered judgment in their favor. On July 9, 2014, relator filed a notice of appeal. On June 8, 2015, the appellate court affirmed the district court. On July 2, 2015, relator filed a petition for rehearing, which was denied on August 4, 2015. On December 2, 2015, relator filed his petition for certiorari to the United States Supreme Court. Defendants filed their opposition to the petition on February 3, 2016. On June 27, 2016, the Supreme Court entered an order granting the petition, vacating the appellate court's judgment and remanding the case back to the appellate court for further consideration. On October 24, 2016, the appellate court again affirmed the district court's grant of summary judgment in defendants' favor. Relator has 90 days from entry of the judgment to seek certiorari to the United States Supreme Court.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because the complaint does not seek a specified amount of damages and it is unclear how damages would be calculated, if we were to be found liable. Accordingly, we have not recognized any liability associated with this action.

United States of America, ex rel. Ann Marie Rega v. Career Education Corporation, et al. On May 16, 2014, Relator Ann Marie Rega, a former employee of Sanford-Brown Iselin, filed an action in the U.S. District Court for the District of New Jersey against the Company and almost all of the Company's individual schools on behalf of herself and the federal government. She alleges claims under the False Claims Act, including that the defendants allegedly provided false certifications to the federal government regarding compliance with certain provisions of the Higher Education Act and accreditation standards. Relator claims that defendants' conduct caused the government to pay federal funds to defendants, and to make payments to third-party lenders, which the government would not have made if not for defendants' alleged violation of the law. Relator seeks treble damages plus civil penalties and attorneys' fees. Relator failed to comply with the statutory requirement that all False Claims Act cases be filed under seal. On June 16, 2014, defendants filed a motion to dismiss the complaint with prejudice as to relator for failure to file her complaint under seal in accordance with the requirements of the False Claims Act.

The Company has been contacted by the Civil Division of the U.S. Department of Justice ("DOJ") with a request for certain documents and information relating to relator's claims. The Company is cooperating with the DOJ.

Because it is in the early stages and because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of

potential loss, if any, for this action because the complaint does not seek a specified amount of damages and it is unclear how damages would be calculated, if we were to be found liable. Moreover, the case presents novel legal issues. Accordingly, we have not recognized any liability associated with this action.

Employment Litigation

Wilson, et al. v. Career Education Corporation. On August 11, 2011, Riley Wilson, a former admissions representative based in Minnesota, filed a complaint in the U.S. District Court for the Northern District of Illinois. The two-count complaint asserts claims of breach of contract and unjust enrichment arising from our decision to terminate our Admissions Representative Supplemental Compensation ("ARSC") Plan. In addition to his individual claims, Wilson also seeks to represent a nationwide class of similarly situated admissions representatives who also were affected by termination of the plan. On October 6, 2011, we filed a motion to dismiss the complaint. On April 13, 2012, the Court granted our motion to dismiss in its entirety and dismissed plaintiff's complaint for failure to state a claim. The Court dismissed this action with prejudice on May 14, 2012. On June 11, 2012, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Seventh Circuit appealing the final judgment of the trial court. Briefing was completed on October 30, 2012, and oral argument was held on December 3, 2012. On August 30, 2013, the Seventh Circuit affirmed the district court's ruling on plaintiff's unjust enrichment claim but reversed and remanded for further proceedings on plaintiff's breach of contract claim. On September 13, 2013, we filed a petition for rehearing to seek review of the panel's decision on the breach of contract claim and for certification of question to the Illinois Supreme Court, but the petition was denied.

The case was remanded to the district court for further proceedings on the sole question of whether CEC's termination of the ARSC Plan violated the implied covenant of good faith and fair dealing. The parties completed fact discovery as to the issue of liability. On March 24, 2015, we filed a motion for summary judgment which the Court granted on December 18, 2015. Plaintiff filed his notice of appeal on January 16, 2016. The oral argument on the appeal was heard on September 23, 2016 and the parties are awaiting the court's decision.

Because of the many questions of fact and law that may arise on appeal, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action. Accordingly, we have not recognized any liability associated with this action.

Other Litigation

In addition to the legal proceedings and other matters described above, we are also subject to a variety of other claims, lawsuits and investigations that arise from time to time out of the conduct of our business, including, but not limited to, claims involving prospective students, students or graduates, alleged violations of the Telephone Consumer Protection Act, both individually and on behalf of a putative class, and routine employment matters. While we currently believe that such claims, individually or in aggregate, will not have a material adverse impact on our financial position, cash flows or results of operations, these other matters are subject to inherent uncertainties, and management's view of these matters may change in the future. Were an unfavorable final outcome to occur in any one or more of these matters, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows, and the results of operations for the period in which the effect becomes probable and reasonably estimable.

State Investigations

The Attorney General of Connecticut is serving as the point of contact for inquiries received from the attorneys general of the following: Arkansas, Arizona, Connecticut, Idaho, Iowa, Kentucky, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Washington (January 24, 2014); Illinois (December 9, 2011); Tennessee (February 7, 2014); Hawaii (May 28, 2014); New Mexico (May 2014); Maryland (March 16, 2015); and the District of Columbia (June 3, 2015) (these 18 attorneys general are collectively referred to as the "Multi-State AGs"). In addition, the

Company has received inquiries from the attorneys general of Florida (November 5, 2010), Massachusetts (September 27, 2012), Colorado (August 27, 2013) and Minnesota (September 18, 2014, October 25, 2016). The inquiries are civil investigative demands or subpoenas which relate to the investigation by the attorneys general of whether the Company and its schools have complied with certain state consumer protection laws, and generally focus on the Company's practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results and student lending activities, among other matters. Depending on the state, the documents and information sought by the attorneys general in connection with their investigations cover time periods as early as 2006 to the present. The Company intends to cooperate with the states involved with a view towards resolving these inquiries as promptly as possible. In this regard, the Company has participated in several meetings with representatives of the Multi-State AGs about the Company's business and to engage in a dialogue towards a resolution of these inquiries.

We cannot predict the scope, duration or outcome of these attorney general investigations. At the conclusion of any of these matters, the Company or certain of its schools may be subject to claims of failure to comply with state laws or regulations and may be required to pay significant financial penalties and/or curtail or modify their operations. Other state attorneys general may also initiate inquiries into the Company or its schools. In addition, all of the Company's institutions have been issued provisional program participation agreements that extend through December 31, 2016. Each of our institutions will need to apply for recertification by September 30, 2016 in order to continue its eligibility to participate in Title IV Programs. We cannot predict whether, or to what

extent, any of these inquiries or future resolutions of these inquiries might impact our Title IV eligibility. Depending on the circumstances of any resolution of these inquiries, ED may revoke, limit, suspend, delay or deny the institution's or all of the Company's institutions' Title IV eligibility, or impose fines. If any of the foregoing occurs, our business, reputation, financial position, cash flows and results of operations could be materially adversely affected. Based on information available to us at present, we cannot reasonably estimate a range of potential monetary or non-monetary impact these investigations might have on the Company because it is uncertain what remedies, if any, these regulators might ultimately seek in connection with these investigations.

In addition to the aforementioned inquiries, from time to time, we receive informal requests from state Attorneys General and other government agencies relating to specific complaints they have received from students or former students which seek information about the student, our programs, and other matters relating to our activities in the relevant state. These requests can be broad and time consuming to respond to, and there is a risk that they could expand and/or lead to a formal inquiry or investigation into our practices in a particular state.

Federal Trade Commission Inquiry

On August 20, 2015, the Company received a request for information pursuant to a Civil Investigative Demand from the U.S. Federal Trade Commission ("FTC"). The request was made pursuant to a November 2013 resolution by the FTC directing an investigation to determine whether unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing or sale of secondary or postsecondary educational products or services, or educational accreditation products or services. The information request requires the Company to provide documents and information regarding a broad spectrum of the business and practices of its subsidiaries and institutions for the time period of January 1, 2010 to the present. The Company is cooperating with the FTC with a view towards resolving these inquiries as promptly as possible.

Because the FTC inquiry is in the early stages and because of the many questions of fact and law that may arise, we cannot predict the outcome of the inquiry. Based on information available to us at present, we cannot reasonably estimate a range of potential monetary or non-monetary impact this inquiry might have on the Company because it is uncertain what remedies, if any, the FTC might ultimately seek in connection with this inquiry.

SEC Inquiry

As previously disclosed, on June 21, 2016, the Company received a request for documents and information from the Denver Regional Office of the Securities and Exchange Commission ("SEC") regarding the Company's fourth quarter 2014 classification of the Company's Le Cordon Bleu Culinary Arts campuses as held for sale within discontinued operations, subsequent sales process and CEC's related public disclosures. The Company is cooperating with the SEC's inquiry. Because the inquiry is in the early stages, we cannot predict its outcome or estimate the nature or amount of possible remedies, if any, the SEC might ultimately seek in connection with this inquiry.

Regulatory Matters

ED Inquiry and HCM1 Status

In December 2011, the U.S. Department of Education ("ED") advised the Company that it is conducting an inquiry concerning possible violations of ED misrepresentation regulations related to placement rates reported by certain of the Company's institutions to accrediting bodies, students and potential students. This inquiry stems from the Company's self-reporting to ED of its internal investigation into student placement determination practices at the Company's previous Health Education segment campuses and review of placement determination practices at all of the

Company's other domestic campuses in 2011. The Company has been cooperating with ED in connection with this inquiry. If ED determines that the Company or any of its institutions violated ED misrepresentation regulations with regard to the publication or reporting of placement rates or other disclosures to students or prospective students or finds any other basis in the materials we are providing, ED may revoke, limit, suspend, delay or deny the institution's or all of the Company's institutions Title IV eligibility, or impose fines. In addition, all of the Company's institutions have been issued provisional program participation agreements that extend through December 31, 2016. Each of our institutions expected to continue operations after December 31, 2016 has applied for recertification by September 30, 2016 in order to continue its eligibility to participate in Title IV Programs. We cannot predict whether, or to what extent, ED's inquiry might impact this recertification process.

In December 2011, ED also moved all of the Company's institutions from the "advance" method of payment of Title IV Program funds to cash monitoring status (referred to as Heightened Cash Monitoring 1, or HCM1, status). If ED finds violations of the Higher Education Act or related regulations, ED may impose monetary or program level sanctions, impose some period of delay in the Company's receipt of Title IV funds or transfer the Company's schools to the "reimbursement" or Heightened Cash Monitoring 2 ("HCM2") methods of payment of Title IV Program funds. While on HCM2 status, an institution must disburse its own funds to students, document the students' eligibility for Title IV Program funds and comply with certain waiting period requirements before

receiving such funds from ED, which may result in a delay in receiving those funds. The process of re-establishing a regular schedule of cash receipts for the Title IV Program funds if ED places our schools on “reimbursement” or HCM2 payment status could take several months, and would require us to fund ongoing operations substantially out of existing cash balances. If our existing cash balances are insufficient to sustain us through this transition period, we would need to pursue other sources of liquidity, which may not be available or may be costly.

OIG Audit

Our schools and universities are subject to periodic audits by various regulatory bodies, including the U.S. Department of Education's Office of Inspector General ("OIG"). The OIG audit services division commenced a compliance audit of CTU in June 2010, covering the period July 5, 2009 to May 16, 2010 (the “Audit Period”), to determine whether CTU had policies and procedures to ensure that CTU administered Title IV Program and other federal program funds in accordance with applicable federal law and regulation. On January 13, 2012, the OIG issued a draft report identifying three findings, including one regarding the documentation of attendance of students enrolled in online programs and one regarding the calculation of returns of Title IV Program funds arising from student withdrawals without official notice to the institution. CTU submitted a written response to the OIG, contesting these findings, on March 2, 2012. CTU disagreed with the OIG's proposed determination of what constitutes appropriate documentation or verification of online academic activity during the time period covered by the audit. CTU's response asserted that this finding was based on the retroactive application of standards adopted as part of the program integrity regulations that first went into effect on July 1, 2011. The OIG final report, along with CTU's response to the draft report, was forwarded to ED's Office of Federal Student Aid on September 21, 2012. On October 24, 2012, CTU provided a further response challenging the findings of the report directly to ED's Office of Federal Student Aid. As a result of ED’s review of these materials, on January 31, 2013, CTU received a request from ED that it perform two file reviews covering the Audit Period to determine potential liability on two discrete issues associated with one of the above findings. The first file review relates to any potential aid awarded to students who engaged in virtual classroom attendance activities prior to the official start date of a course and for which no further attendance was registered during the official class term. The second file review relates to students that were awarded and paid Pell funds for enrollment in two concurrent courses, while only registering attendance in one of the two courses. The Company completed these file reviews and provided supporting documentation to ED on April 10, 2013. On April 29, 2016, ED directed CTU to perform these same two file reviews for an additional time period that extended from the end of the Audit Period through June 30, 2011, which CTU has completed and submitted to ED. On April 29, 2016, ED also requested an additional file review related to whether CTU appropriately performed calculations regarding any required return of Title IV Program funds for students that failed to earn passing grades within a term. This additional file review covers the period from July 5, 2009 to June 30, 2011 and is a review of whether students should be deemed to have unofficially withdrawn from the institution based on each student’s last known academically-related activity. CTU is seeking reconsideration of the request for this additional file review. As of September 30, 2016, the Company has a $1.0 million reserve recorded related to this matter. This reserve does not include any amount relating to the additional file review requested by ED on April 29, 2016 because it is uncertain.

9. INCOME TAXES

The determination of the annual effective tax is based upon a number of significant estimates and judgments, including the estimated annual pretax income in each tax jurisdiction in which we operate and the ongoing development of tax planning strategies during the year. In addition, our provision for income taxes can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following is a summary of our provision for (benefit from) income taxes and effective tax rate from continuing operations (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
Pretax (loss) income	$(479)	$(44,656)	$23,990	$(90,146)
Provision for (benefit from) income taxes	$21	$35	$8,776	$(923)
Effective rate	4.4 %	0.1 %	36.6 %	-1.0 %

As of December 31, 2015, we determined that it was more likely than not that we will realize most of our deferred tax assets and, as a result, reversed a significant portion of our valuation allowance during the fourth quarter of 2015. As of December 31, 2015, a valuation allowance of $47.5 million was maintained with respect to our foreign tax credits, separate state net operating losses and Illinois edge credits. After considering both positive and negative evidence related to the realization of these deferred tax assets we have determined that it is necessary to continue to record the valuation allowance against these credits and separate state net operating losses as of September 30, 2016.

The effective tax rate for the quarter ended September 30, 2016, was primarily impacted by tax reserves recorded in the current quarter and the tax effect of expenses that are not deductible for tax purposes. The effective tax rate for the year to date ended September 30, 2016 includes $2.1 million favorable tax adjustment related to the recent closure of a federal tax audit for the tax years 2013 and 2014. The effect of this discrete item was to decrease the year to date effective rate by 8.8%. The effective rate for the quarter and year to date ended September 30, 2015, was primarily driven by maintaining a full valuation allowance against our deferred tax assets. For the quarter and year to date ended September 30, 2015, the effect of federal and state valuation losses reduced the effective tax rate benefit by 42.4% and 41.8%, respectively.

We estimate that it is reasonably possible that the gross liability for unrecognized tax benefits for a variety of uncertain tax positions will decrease by up to $1.9 million in the next twelve months as a result of the completion of various tax audits currently in process and the expiration of the statute of limitations in several jurisdictions. The income tax rate for the quarter and year to date ended September 30, 2016 does not take into account the possible reduction of the liability for unrecognized tax benefits. The impact of a reduction to the liability will be treated as a discrete item in the period the reduction occurs. We recognize interest and penalties related to unrecognized tax benefits in tax expense. As of September 30, 2016, we had accrued $2.0 million as an estimate for reasonably possible interest and accrued penalties.

Our tax returns are routinely examined by federal, state, local and foreign tax authorities and these audits are at various stages of completion at any given time. The Internal Revenue Service recently completed its examination of our U.S. income tax returns for the 2013 and 2014 tax years.

10. SHARE-BASED COMPENSATION

Overview of Share-Based Compensation Plans

The Career Education Corporation 2016 Incentive Compensation Plan (the “2016 Plan”) was approved by the Company’s stockholders on May 24, 2016. The 2016 Plan authorizes awards of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, performance units, annual incentive awards, and substitute awards, which generally may be settled in cash or shares of our common stock. Any shares of our common stock that are subject to awards of stock options or stock appreciation rights payable in shares will be counted as 1.0 share for each share issued for purposes of the aggregate share limit and any shares of our common stock that are subject to any other form of award payable in shares will be counted as 1.35 shares for each share issued for purposes of the aggregate share limit. As of September 30, 2016, there were approximately 4.2 million shares of common stock available for future share-based awards under the 2016 Plan, which is net of (i) 0.2 million shares issuable upon exercise of outstanding options and (ii) less than 0.1 million shares underlying restricted stock units, which will be settled in shares of our common stock if the vesting conditions are met and thus reduce the common stock available for future share-based awards under the 2016 Plan by the amount vested. These shares have been multiplied by the applicable factor under the 2016 Plan to determine the remaining shares available as of September 30, 2016. Additionally, as of September 30, 2016, there were approximately 2.9 million shares issuable upon exercise of outstanding options and 1.7 million shares underlying restricted and deferred stock units outstanding, which will be settled in shares of our common stock if the vesting conditions are met, under the previous Career Education Corporation 2008 Incentive Compensation Plan. This plan was replaced by the 2016 Plan and effective May 24, 2016, all future awards will be made under the 2016 Plan. The vesting of all types of equity awards (stock options, stock appreciation rights, restricted stock awards, restricted stock units and deferred stock units) is subject to possible acceleration in certain circumstances. Generally, if a plan participant terminates employment for any reason other than by death or disability during the vesting period, the right to unvested equity awards is forfeited.

As of September 30, 2016, we estimate that compensation expense of approximately $6.0 million will be recognized over the next four years for all unvested share-based awards that have been granted to participants, including stock options, restricted stock units and deferred stock units to be settled in shares of stock but excluding restricted stock units to be settled in cash.

Stock Options. The exercise price of stock options and stock appreciation rights granted under each of the plans is equal to the fair market value of our common stock on the date of grant. Employee stock options generally become exercisable 25% per year over a four-year service period beginning on the date of grant and expire ten years from the date of grant. Non-employee directors' stock options expire ten years from the date of grant and generally become exercisable as follows: 100% after the first anniversary of grant date or one-fourth on the grant date and one-fourth for each of the first through third anniversary of the grant date. Grants of stock options are generally only subject to the service conditions discussed previously.

Stock option activity during the year to date ended September 30, 2016 under all of our plans was as follows (options in thousands):

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2015	2,658	$ 14.27
Granted	906	4.79
Exercised	(75)	3.66
Forfeited	(121)	5.11
Cancelled	(266)	25.39
Outstanding as of September 30, 2016	3,102	$ 11.16
Exercisable as of September 30, 2016	1,830	$ 15.61

Restricted Stock Units to be Settled in Stock. Restricted stock units to be settled in shares of stock generally become fully vested as follows: 25% per year over a four -year service period or one-third for each of the first through third anniversary of the grant date. Certain awards granted in 2016 vest 20% after the first year, 50% after the second year and 30% after the third year and are “performance-based” awards which are subject to performance conditions that, even if the requisite service period is met, may reduce the number of units of restricted stock that vest at the end of the requisite service period or result in all units being forfeited. Also, certain awards granted in the second quarter of 2015 for retention purposes are subject to accelerated vesting and cash settlement in the event of an involuntary not-for-cause termination of employment by the Company.

The following table summarizes information with respect to all outstanding restricted stock units to be settled in shares of stock under our plans during the year to date ended September 30, 2016 (units in thousands):

	Restricted Stock to be Settled in Shares of Stock	
	Units	Weighted Average Grant-Date Fair Value Per Unit
Outstanding as of December 31, 2015	758	$ 5.55
Granted	1,556	4.58
Vested [(1)]	(378)	6.00
Forfeited	(192)	5.12
Outstanding as of September 30, 2016	1,744	$ 4.63

(1) The total vested awards include 9.2 thousand of vested restricted stock units settled in cash. As a result of the termination provision for certain awards, in the event of an involuntary not-for-cause termination of employment by the Company certain termination scenarios allow for cash-settlement.

Deferred Stock Units to be Settled in Stock. During 2014, we granted deferred stock units to our non-employee directors. The deferred stock units are to be settled in shares of stock and generally vest one-third per year over a three-year service period beginning on the date of grant. Settlement of the deferred stock units and delivery of the underlying shares of stock to the plan participants does not occur until he or she ceases to provide services to the Company in the capacity of a director, employee or consultant.

The following table summarizes information with respect to all deferred stock units during the year to date ended September 30, 2016 (units in thousands):

	Deferred Stock Units to be Settled in Shares	Weighted Average Grant-Date Fair Value Per Unit
Outstanding as of December 31, 2015 (1)	91	$ 4.43
Granted	-	-
Vested	(15)	4.39
Forfeited	-	-
Outstanding as of September 30, 2016 (1)	76	$ 4.44

(1) Includes vested but unreleased awards. These awards are included in total outstanding awards until they are released under the terms of the agreement.

Restricted Stock Units to be Settled in Cash. Restricted stock units to be settled in cash generally become fully vested 25% per year over a four-year service period beginning on the date of grant. Certain awards granted to our Chief Executive Officer in 2015 outside of the 2008 Plan vest 50% per year over a two-year service period. Cash-settled restricted stock units are recorded as liabilities as the expense is recognized and the fair value for these awards is determined at each period end date with changes in fair value recorded in our unaudited condensed consolidated statements of (loss) income and comprehensive (loss) income in the current period. Cash-settled restricted stock units are settled with a cash payment for each unit vested equal to the closing price on the vesting date. Cash-settled restricted stock units are not included in common shares reserved for issuance or available for issuance under the 2016 Plan.

The following table summarizes information with respect to all cash-settled restricted stock units during the year to date ended September 30, 2016 (units in thousands):

	Restricted Stock Units to be Settled in Cash
Outstanding as of December 31, 2015	1,575
Granted	461
Vested	(606)
Forfeited	(208)
Outstanding as of September 30, 2016	1,222

Upon vesting, based on the conditions set forth in the award agreements, these units will be settled in cash. We valued these units in accordance with the guidance set forth by FASB ASC Topic 718 – Compensation-Stock Compensation and recognized $3.4 million of expense for the year to date 2016 for all cash-settled restricted stock units, of which $1.4 million was recorded during the quarter ended September 30, 2016.

Stock-Based Compensation Expense. Total stock-based compensation expense for the quarters and years to date ended September 30, 2016 and 2015 for all types of awards was as follows (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
Award Type	2016	2015 [(1)]	2016	2015 [(1)]
Stock options	$316	$ 289	$905	$ 683
Restricted stock or units settled in stock	539	687	1,330	2,214
Restricted stock units settled in cash	1,362	463	3,383	1,007
Total stock-based compensation expense	$2,217	$ 1,439	$5,618	$ 3,904

(1) Stock-based compensation expense for the year to date 2015 does not reflect $1.5 million of forfeitures related to our former Chief Executive Officer’s departure which was applied against the separation agreement payment of $2.5 million.

Performance Unit Awards. Performance unit awards granted during 2014, 2015 and 2016 are long-term incentive, cash-based awards. Payment of these awards is based upon a calculation of Total Shareholder Return (“TSR”) of CEC as compared to TSR across a specified peer group of our competitors over a three-year performance period ending primarily on December 31, 2016, 2017 and 2018, respectively. These awards are recorded as liabilities as the expense is recognized and fair value for these awards is revalued at each period end date with changes in fair value recorded in our unaudited condensed consolidated statements of (loss) income and comprehensive (loss) income in the current period. We recorded $2.6 million and $0.7 million of expense related to these awards for the years to date ended September 30, 2016 and September 30, 2015, respectively, with $1.7 million and $1.0 million of expense for the quarters ended September 30, 2016 and September 30, 2015, respectively.

11. WEIGHTED AVERAGE COMMON SHARES

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of shares assuming dilution. Dilutive common shares outstanding is computed using the Treasury Stock Method and reflects the additional shares that would be outstanding if dilutive stock options were exercised and restricted stock units were settled for common shares during the period.

The weighted average number of common shares used to compute basic and diluted net income (loss) per share for the quarters and years to date ended September 30, 2016 and 2015 were as follows:

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016 (1)	2015 (1)	2016	2015 (1)
Basic common shares outstanding	68,460	67,961	68,328	67,798
Common stock equivalents	-	-	561	-
Diluted common shares outstanding	68,460	67,961	68,889	67,798

(1) Due to the fact that we reported a loss from continuing operations for the quarters ended September 30, 2015 and 2016, and year to date ended September 30, 2015, potential common stock equivalents are excluded from the diluted common shares outstanding calculation. Per FASB ASC Topic 260 – Earnings Per Share, an entity that reports discontinued operations shall use income or loss from continuing operations as the benchmark for calculating diluted common shares outstanding, and as such, we have zero common stock equivalents since these shares would have an anti-dilutive effect on our net loss per share for the quarters ended September 30, 2015 and 2016, and year to date ended September 30, 2015.

For the year to date ended September 30, 2016, certain unexercised stock option awards are excluded from our computations of diluted earnings per share, as these shares were out-of-the-money and their effect would have been anti-dilutive. The anti-dilutive options that were excluded from our computations of diluted earnings per share were 2.6 million shares for the year to date ended September 30, 2016.

12. SEGMENT REPORTING

Our segments are determined in accordance with FASB ASC Topic 280—Segment Reporting and are based upon how the Company analyzes performance and makes decisions. Each segment represents a group of postsecondary 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 and, for our two universities, to enhance brand focus within each segment to more effectively execute our strategic plan. As of September 30, 2016, our four segments are:

University Group:

Colorado Technical University (CTU) places a strong focus on providing industry-relevant degree programs to meet the needs of our students for employment and of employers for a well-educated workforce and offers academic programs in the career-oriented disciplines of business studies, information systems and technologies, criminal justice, computer science and engineering, and health sciences. Students pursue their degrees through fully-online programs through CTU Online, local campuses and blended formats, which combine campus-based and online education. As of September 30, 2016, students enrolled at CTU represented approximately 59% of our total enrollments. Approximately 93% of CTU's enrollments are fully online.

American InterContinental University (AIU) focuses on helping busy professionals get the degree they need to move forward in their career as efficiently as possible and collectively offers academic programs in the career-oriented disciplines of business studies, information technologies, criminal justice and design technologies.

Students pursue their degrees through fully-online programs through AIU Online, local campuses and blended formats, which combine campus-based and online education. As of September 30, 2016, students enrolled at AIU represented approximately 29% of our total enrollments. Approximately 93% of AIU's enrollments are fully online.

Career Schools Group:

Campuses included in our Career Schools segments include those which are currently being taught out or those which have completed their teach-out activities or have been sold subsequent to January 1, 2015. As a result of a change in accounting guidance, campuses which have closed or have been sold subsequent to January 1, 2015 no longer meet the criteria for discontinued operations and remain reported within continuing operations on our unaudited condensed consolidated financial statements. Campuses in teach-out employ a gradual teach-out process, enabling them to continue to operate while current students have a reasonable opportunity to complete their course of study; they no longer enroll new students.

Culinary Arts includes our Le Cordon Bleu institutions in North America ("LCB") which offer hands on educational programs in the career-oriented disciplines of culinary arts and patisserie and baking in the commercial-grade kitchens of Le Cordon Bleu. LCB also provides online programs in culinary arts and hotel and restaurant management. These campuses are all expected to complete their teach-out activities during 2017. As of September 30, 2016, students enrolled at LCB represented approximately 9% of our total enrollments.

Transitional Group includes our non-LCB campuses which are in teach-out or those which have been closed or sold subsequent to January 1, 2015. Our Transitional Group offers academic programs primarily in the career-oriented discipline of health education complemented by certain programs in business studies and information technology, as well as fashion design, film and video production, graphic design, interior design and visual communications. The campuses within the Transitional Group that have not yet ceased operations as of September 30, 2016 will complete their teach-outs on varying dates through 2018. As of September 30, 2016, students enrolled at the Transitional Group campuses represented approximately 3% of our total enrollments. During the third quarter of 2016, the Company completed the teach-out of five Transitional Group campuses: Sanford-Brown Atlanta, Sanford-Brown Dallas, Sanford-Brown Ft. Lauderdale, Sanford-Brown Iselin and International Academy of Design & Technology Detroit, which continue to be reported as part of the Transitional Group as of September 30, 2016.

Summary financial information by reporting segment is as follows (dollars in thousands):

	For the Quarter Ended September 30,					
	Revenue				Operating (Loss) Income	
	2016	% of Total	2015	% of Total	2016	2015
CTU [1]	$90,921	54.2 %	$85,433	42.0 %	$21,486	$18,616
AIU [2]	48,542	29.0 %	50,688	24.9 %		