CAREER EDUCATION CORP
Form 10-K
February 23, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 of 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

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

Common Stock, $0.01 par value	Nasdaq Global Select Market
(Title of Class)	(Name of Exchange on which Registered)

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

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 Securities Exchange Act of 1934. Yes No

The aggregate market value of the Registrant's voting common stock held by non-affiliates of the Registrant, based upon the $5.95 per share closing sale price of the Registrant's common stock on June 30, 2016 (the last business day of the Registrant's most recently completed second quarter), was approximately $394,000,000. For purposes of this calculation, the Registrant's directors, executive officers and 10% or greater stockholders have been assumed to be affiliates. This assumption of affiliate status is not necessarily a conclusive determination for other purposes. As of February 17, 2017, the number of outstanding shares of Registrant's common stock was 68,535,001.

Portions of the Registrant's Notice of Annual Meeting and Proxy Statement for the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

CAREER EDUCATION CORPORATION

FORM 10-K

TABLE OF CONTENTS

		Page
PART I		
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	26
ITEM 1B.	UNRESOLVED STAFF COMMENTS	38
ITEM 2.	PROPERTIES	38
ITEM 3.	LEGAL PROCEEDINGS	39
ITEM 4.	MINE SAFETY DISCLOSURES	39
PART II		
ITEM 5.	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	40
ITEM 6.	SELECTED FINANCIAL DATA	43
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	45
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	63
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	64
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	64
ITEM 9A.	CONTROLS AND PROCEDURES	64
ITEM 9B.	OTHER INFORMATION	65
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	66
ITEM 11.	EXECUTIVE COMPENSATION	66
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	66
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	67
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	67
PART IV		
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	68
SIGNATURES		69

PART I

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects and opportunities, as well as assumptions made by, and information currently available to, our management. We have tried to identify forward-looking statements by using words such as “anticipate,” “believe,” “expect,” “estimate,” “trend,” ”will,” “continue to,” “focused on” and similar expression these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those matters discussed herein under the caption “Risk Factors” that could cause our actual growth, results of operations, financial condition, cash flows, performance, business prospects and opportunities to differ materially from those expressed in, or implied by, these statements. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason.

ITEM 1. BUSINESS

Career Education Corporation (“CEC”) was incorporated in Delaware in 1994. When used in this Annual Report on Form 10-K, 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” each 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.

BUSINESS OVERVIEW

Career Education’s academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and blended 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.

In 2015, we made the strategic decision to focus our resources and attention on our two universities. In accordance with that strategy, we are in the process of teaching out campuses within our Transitional Group and Culinary Arts segments. Students enrolled at these campuses have been 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 our colleges, institutions and universities can be found at www.careered.com.

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. 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.

Our four reporting segments as of December 31, 2016 are described below.

University Group:

Colorado Technical University (CTU) places a strong focus on providing industry-relevant degree programs to meet the needs of our students for career advancement and of employers for a well-educated workforce and offers academic programs in the career-oriented disciplines of business studies, nursing, computer science, engineering, information systems and technology, cybersecurity and healthcare management. Students pursue their degrees through fully-online programs, local campuses and blended formats, which combine campus-based and online education. As of December 31, 2016, students enrolled at CTU represented approximately 60% of our total enrollments. Approximately 92% 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, education and criminal justice. Students pursue their degrees through fully-

online programs, local campuses and blended formats, which combine campus-based and online education. As of December 31, 2016, students enrolled at AIU represented approximately 32% of our total enrollments. Approximately 94% 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 within our 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. These campuses are all expected to complete their teach-out activities by the end of 2017. As of December 31, 2016, students enrolled at LCB represented approximately 6% of our total enrollments.

During 2016, we completed the teach-out of one Culinary Arts campus (LCB St. Louis). The results of operations for this campus will remain reported within the Culinary Arts segment as part of continuing operations, in accordance with ASC Topic 360.

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 in career-oriented disciplines complemented by certain programs in business studies and information technology. The campuses within the Transitional Group that have not yet ceased operations as of December 31, 2016 will complete their teach-outs on varying dates through 2018. As of December 31, 2016, students enrolled at the Transitional Group campuses represented approximately 2% of our total enrollments.

During 2016 we completed the teach-out of twelve campuses within our Transitional Group. The results of operations for these campuses will remain reported within the Transitional Group as part of continuing operations, in accordance with ASC Topic 360.

Revenues, operating income (loss) and total assets by reporting segment for each of the past three fiscal years are included in Note 16 "Segment Reporting" of the notes to our consolidated financial statements.

CAMPUS LOCATIONS

Our reporting segments, colleges and universities, and their campus locations, as of February 23, 2017 are summarized in the table below. Campuses that ceased operations prior to February 23, 2017 are not included.

Colleges and Universities, Campus Locations	Website
AMERICAN INTERCONTINENTAL UNIVERSITY ("AIU"):	www.aiuniv.edu
AIU Atlanta, Atlanta, GA (includes Georgia online programs)	
AIU Houston, Houston, TX	
AIU Online, Schaumburg, IL	
COLORADO TECHNICAL UNIVERSITY ("CTU"):	www.coloradotech.edu
CTU Colorado Springs, Colorado Springs, CO	
CTU Denver, Aurora, CO	
CTU Online, Colorado Springs, CO	
CULINARY ARTS:	
Le Cordon Bleu College of Culinary Arts ("LCB")	www.chefs.edu
LCB Atlanta, Tucker, GA	
LCB Austin, Austin, TX	
LCB Boston, Cambridge, MA	
LCB Chicago, Chicago, IL	
LCB Dallas, Dallas, TX	
LCB Las Vegas, Las Vegas, NV	
LCB Los Angeles, Pasadena, CA	
LCB Miami, Miramar, FL	
LCB Minneapolis/St. Paul, Mendota Heights, MN	
LCB Orlando, Orlando, FL	
LCB Portland, Portland, OR	
LCB Sacramento, Sacramento, CA	
LCB San Francisco, San Francisco, CA	
LCB Scottsdale (includes Online), Scottsdale, AZ	
LCB Seattle, Tukwila, WA	
TRANSITIONAL GROUP:	
Briarcliffe College	www.briarcliffe.edu
Briarcliffe College (includes Online), Bethpage, NY	
Briarcliffe College, Patchogue, NY	
Harrington College of Design, Chicago, IL	www.harrington.edu
Sanford-Brown College ("SBC"):	www.sanfordbrown.edu
SBC Brooklyn Center, Brooklyn Center, MN	
SBC Chicago, Chicago, IL	
SBC Las Vegas, Henderson, NV	
SBC Mendota Heights, Mendota Heights, MN	
SBC Online, Tampa, FL	
SBC Orlando, Orlando, FL	
SBC San Antonio, San Antonio, TX	
SBC Seattle, Seattle, WA	
SBC Tampa, Tampa, FL	

INDUSTRY BACKGROUND AND COMPETITION

The domestic postsecondary degree-granting education industry was more than a $600 billion industry through academic year 2013-14, according to a report published in 2016 by the U.S. Department of Education ("ED" or "the Department"), with approximately 21 million students attending institutions that participate in U.S. federal financial aid programs. The Department projects that enrollment in postsecondary degree-granting institutions is expected to grow approximately 15% over the eleven-year period ending in the fall of 2023 to approximately 24 million students. The majority of degree-seeking students today have one or more non-traditional characteristics (e.g., did not enroll immediately after high school graduation, attend part-time, work full-time, are financially independent for purposes of financial aid eligibility, have dependents other than a spouse, are single parents, or have no

high school diploma). These non-traditional students typically are looking to improve their skills and enhance their earnings potential within the context of their careers or in pursuit of new careers. As the industry has shifted to more students with non-traditional characteristics, an increasing proportion of colleges and universities are addressing the needs of working students. This includes colleges with well-established brand names that were historically focused on traditional students.

The postsecondary education industry is highly fragmented and increasingly competitive, with no one provider controlling a significant market share. Students choose among providers based on programs and degrees offered, program flexibility and convenience, geographic location, method of instruction (i.e. classroom or online), quality of instruction, employment placement rates, reputation, recruiting effectiveness and cost. Such multi-faceted market fragmentation results in significant differentiation among various education providers.

The Higher Education Act of 1965, as amended and reauthorized ("Higher Education Act"), and the related regulations govern all higher education institutions participating in federal student aid and loan programs under Title IV of the Higher Education Act ("Title IV Programs"). According to the National Center for Education Statistics ("NCES"), there were approximately 7,200 Title IV eligible postsecondary education institutions in the United States for the academic year 2015-16, including approximately 3,300 for-profit schools; approximately 2,000 public, non-profit schools; and approximately 1,900 private, non-profit schools. According to the Department, over the 12-month period July 1, 2014 through June 30, 2015 approximately 27 million students were attending institutions that participate in the various Title IV Programs.

Our primary public company competitors in the for-profit postsecondary education industry are: American Public Education, Inc., Bridgepoint Education, Inc., Capella Education Company, DeVry Education Group Inc., Grand Canyon Education, Inc., Kaplan, Inc. (a division of the Graham Holdings Company), Laureate Education, Inc. and Strayer Education, Inc. We also compete with a number of privately held for-profit and non-profit postsecondary institutions, including community colleges. In addition, there is growing competition from online programs among postsecondary education institutions, including for-profit publicly traded and privately held institutions, as well as non-profit institutions who are increasing online offerings in response to the growing demand.

Our postsecondary institutions are subject to significant regulations which provide for a regulatory triad by mandating specific regulatory responsibilities for each of the following:

- The accrediting agencies recognized by ED;
- The federal government through ED; and
- State higher education regulatory bodies.

Extensive and increasingly complex ED regulations governing our institutions as well as others in the postsecondary education industry have been enacted. These regulations, coupled with the increased focus by the U.S. Congress on the role that for-profit educational institutions play in higher education, as well as the evolving needs and objectives of students and employers, economic constraints affecting educational institutions and increased focus on affordability and value may cause increased competition across the industry as well as contribute to changes in business operating strategies.

Although competition exists, for-profit educators serve a segment of the market for postsecondary education that we believe has not been fully addressed by traditional public and private universities. Non-profit public and private institutions can face limited financial resources to expand their offerings in response to growth or changes in the demand for education, due to a combination of state funding challenges, significant expenditures required for research and the professor tenure system. Certain private institutions also may control enrollments to preserve the perceived prestige and exclusivity of their degree offerings. In contrast, for-profit providers of postsecondary education offer potential students the greater flexibility and convenience of their institutions' programmatic offerings and learning structure and an emphasis on applied content. At the same time, the share of the postsecondary education market that has been captured by for-profit providers remains relatively small. As a result, we believe that in spite of recent

regulatory changes and other challenges facing the industry, for-profit postsecondary education providers continue to have significant opportunities to address the demand for postsecondary education.

We believe that the online postsecondary education market continues to grow and gain acceptance across employers seeking qualified candidates for employment. Growth in the postsecondary education industry is being driven by online enrollment for a variety of reasons, including:

- A growing demographic of adult learners;
- A current gap in attainment of higher education for adult learners; and
- Continued increased economic benefit for employees who hold a bachelor’s degree as compared to those with lower-level degrees.

4

Our Competitive Strengths

We believe that the following strengths differentiate our business:

Commitment to our students through focus on student experience, student retention and student outcomes. Our focus remains on strengthening academic outcomes through focus on the entire student life cycle from enrollment through completion of their program. As an education company, academic outcomes are the most relevant and critical measure of our success. We have been focused on putting the right leaders in our institutions to further our priority of strengthening our academic outcomes. Our institutions are dedicated to recruiting and retaining quality faculty and instructors with relevant industry experience and appropriate academic credentials. We continue to invest and leverage technology to further enhance student learning and faculty engagement. We seek to identify emerging industry trends in order to understand the evolving educational needs of our students and graduates and we continue to work with our University regulators to expand our program offerings to provide students with increased offerings.

Proprietary online instructional platform. Development of a virtual campus that engages online students with their instructor, their peers and the content is critical to the achievement of improved student learning outcomes. CEC's online instructional delivery is accomplished utilizing an innovative, student-focused proprietary learning management system. While online content delivery is very common today, CEC's course content delivery system, M.U.S.E. (My Unique Student Experience), has several features that make it distinctive in the education marketplace. Designed around the students, M.U.S.E. is a rich, engaging student experience that represents an innovative online method of delivering content that includes the following capabilities:

- supports multiple learning styles, allowing students to choose their preferred method of engaging with the content;
- enables students to choose the order of topics to study within a predetermined framework of learning objectives; and
- provides search capability that allows students to interact with the content more efficiently and effectively.

In addition, CTU and AIU each rolled out a mobile application during 2015 which was created to complement students' mobile-centric lives. The mobile applications offer users the ability to connect with their university, track grades and degree progress in real-time and participate in courses from the palm of their hand. The student benefits of the mobile applications include motivating students and helping them connect with the university and remain on track with their course of study.

Innovative adaptive learning technology. Through our equity investment in CCKF, a Dublin-based educational technology company that provides intelligent, adaptive systems to power the delivery of individualized and personalized learning, we have strengthened our leadership position as an innovator in higher education and as a company dedicated to student success. Our adaptive learning content was developed by teams of our own instructors and has been integrated across many of our curricula. We have a perpetual license to this technology, which, when integrated with our proprietary learning management system, we refer to as intellipath.™ This academic and technological breakthrough has the potential to advance our understanding of the learning process and support improved student outcomes. Adaptive learning, supported by intellipath technology, allows us to visualize how each student learns through their interaction with the material.

Intellipath serves as a powerful platform to help our students learn. It identifies and gives more time in areas where students need more help, while moving past areas they already know. In many respects, adaptive learning serves as an excellent way to facilitate and demonstrate mastery in a competency-based learning environment. Adaptive learning is changing the nature of higher education by measuring real-time knowledge growth minute-by-minute and understanding of the material on a student-by-student basis.

The success of this personalized learning platform lies in the abundance of data it collects, which in turn helps our instructors determine how to structure courses, deliver material to students, predict and mitigate individual student

challenges and identify teaching practices that yield the strongest results. A major difference between our platform and others is that it focuses on student learning achievements rather than solely on student satisfaction or how fast it facilitates a student to complete assignments.

Transformation Efforts. The strategic decisions made over the past several years to exit our Career Schools and International campuses and focus our resources and attention on our University institutions will enhance our financial and operating performance and enable us to focus more on student outcomes at our University institutions. Our teach-out campuses are progressing as expected and are on track to be complete in 2018, with substantial completion in 2017. Further, we have the capability to explore various options available to us to meet the challenges posed by various regulatory requirements that have been introduced within the industry and to continue to build upon our strong University platforms.

Seasonality

Our quarterly net revenues and income fluctuate primarily as a result of the pattern of student enrollments. The seasonality of our business has decreased over the last several years due to an increased percentage of students enrolling in online programs, which generally experience less seasonal fluctuations than campus-based programs. However, we typically experience our lowest revenue levels during our third fiscal quarter as a result of those students who do follow a typical institution calendar and take summer breaks.

While operating costs for our institutions generally do not fluctuate significantly on a quarterly basis, we do traditionally increase our advertising investments during the first and third fiscal quarters in relation to the back to school seasons. Revenues, operating (loss) income and net (loss) income by quarter for each of the past two fiscal years are included in Note 18 “Quarterly Financial Summary” of the notes to our consolidated financial statements.

BUSINESS AND OPERATING STRATEGY

To compete successfully in today’s demanding economy, people benefit from higher education that provides a foundation of knowledge and skills they can use in the workplace and to build meaningful careers. We aim to provide effective, industry-relevant postsecondary education to a diverse population, providing our students the opportunity to use their education to advance personally and professionally.

Our strategic plan is aimed at leveraging near-term demands for higher education with a career focus, while continuing to build the capabilities necessary to deliver sustainable and responsible long-term growth for our organization and its institutions. Within our University Group, we are focused on increasing the efficacy of our programs while seeking operational efficiencies in an effort to continually improve the student experience across the entire student lifecycle - for our campus-based students as well as our online students.

The importance of quality education at our institutions cannot be overstated. The quality of the education we provide and the manner in which we provide it can directly lead to better student outcomes. We will strive to offer new programs at institutions and particular campuses as there is both student demand for the education, as well as workplace demand for graduates in that field of study. Known as an innovator in online education, we will continue to build upon that history and continue developing new education technologies that enhance the learning experience for students. We believe our intellipath™ adaptive learning platform provides our organization and its institutions a strategic advantage by providing a more customized student experience and we will continue to expand its use as a key differentiator.

Growing the academic and economic value of our University platforms by enhancing student retention and outcomes aligns student interests with stockholder value. Our continued execution on transformation efforts have given us the ability to focus our resources and attention on our University institutions. We are committed to investing in our University brands, technology and faculty, all of which contribute to positive student experiences and outcomes.

Our strategic plan is built upon core guiding principles, including:

- responsible growth;
- student retention and outcomes;
- academic quality and integrity;
- student graduation and employment; and
- compliance with regulations.

Responsible Growth

Student Recruitment and Marketing

Our institutions seek highly motivated, career-oriented students with both the desire and ability to complete their academic programs of choice. To promote interest among potential students, each of our universities engages in a wide variety of marketing activities. We are concentrated on enhancing our brand perception by continuing to focus on building strong brand recognition. We also seek to differentiate our online institutions and brands through our innovative information technology architecture. Through our proprietary virtual campus, we have the ability to provide unique online and blended learning environments.

We seek to increase enrollment at our University Group through marketing programs designed to differentiate our brands in the marketplace and maximize each institution's opportunity to serve a targeted section of the potential student population.

Within our University Group, we continue our focus on expanding strategic relationships with corporate partners. We expect these relationships to result in new student interest through increased awareness of our brands for the employees of our corporate partners.

Admissions

CEC has historically served a diverse student population. Our students represent a broad range of educational and employment experiences, contributing to their college-level readiness. Each of our University Group institutions has an admissions staff who is responsible for interacting with individuals interested in enrolling. Admissions advisors serve as prospective students' primary contacts, providing information to help them make informed enrollment decisions and assisting them with the completion of the enrollment process.

The admissions and entrance processes for our institutions are intended to identify students who are interested in meeting the requirements of their chosen program of study. We believe that a success-oriented student body ultimately results in higher student retention, increased student and employer satisfaction, and lower default rates on government loans utilized by the student. Generally, to be qualified for admission to one of our institutions, an applicant must have received a high school diploma or a recognized equivalent, such as a General Education Development certificate. Some of our programs may also require applicants to meet other admissions requirements.

Our orientation process encourages students to engage actively in preparatory activities which can include an adaptive learning module, a discussion board assignment and an individual project. This orientation program also provides the opportunity for students to understand our academic and support services. We believe completion of these activities will better prepare a student to make an informed decision about pursuing their education as well as to be more successful as it simulates their classroom experience both online and in a campus-based environment. Campus-based students have the opportunity to engage with faculty, staff and current students during orientation which builds confidence and a comfort level in their new learning environment. Orientation is free of charge and offered to all students prior to the start of the first course. Completion of orientation does not financially obligate students nor does it require students to continue their education with the university. Students have the opportunity to cancel their enrollment at any time during orientation without incurring a financial obligation.

Student Retention and Outcomes

We emphasize the importance of student retention at each of our institutions. As is the case at any postsecondary educational institution, a portion of our students fail to complete their academic programs for a variety of academic, financial or personal reasons. We also employ student advisors that provide feedback and assistance to students during their course of study. We seek to improve retention rates by building a strong connection between our faculty and students and promoting instructional innovation, such as our M.U.S.E. instructional platform. These efforts, as well as our intellipath adaptive learning technology, are designed to assist our students to remain in school and succeed.

Through incremental investments in our student financial aid team, we have increased our document collection efforts with students. By ensuring that students have provided the correct documents timely, a student will be able to start their education with the knowledge of what loans, grants and financing are available to them, thus providing them with the capability of funding their education. The staff work with each student to assist in determining the best funding solution for their educational needs as well as provide transfer of credit counseling.

A new student advising model was implemented during 2016 which promotes specific and deliberate collaboration between faculty and advisors which we believe elevates accountability and effectiveness of our retention efforts. Coupled with the new student advising model, the University Group has made changes to course sequencing to build workload levels slowly as students develop skills and motivation. Lastly, we have reduced average class sizes to enhance the level of personalized support to our students.

Student Enrollment Statistics

Our total student enrollment as of December 31, 2016 and 2015 was approximately 36,600 students and 43,200 students, respectively. Included in total student enrollment were approximately 33,600 students and 31,900 students, respectively, for our University institutions, with approximately 31,200 students and 29,200 students, respectively, enrolled in our University Group fully-online academic programs. Related student enrollment demographic information for our University Group as of December 31, 2016 and 2015 was as follows:

University Group Student Enrollment by Age Group

	As a Percentage of Total University Group Student Enrollment as of December 31,			
	2016		2015	
Over 30	62	%	63	%
21 to 30	36	%	35	%
Under 21	2	%	2	%

University Group Student Enrollment by Core Curricula

	As a Percentage of Total University Group Student Enrollment as of December 31,			
	2016		2015	
Business Studies	72	%	73	%
Information Technology	15	%	14	%
Health Education	12	%	12	%
Visual Communications and Design Technologies	1	%	1	%

University Group Student Enrollment by Degree Granting Program

	As a Percentage of Total University Group Student Enrollment as of December 31,			
	2016		2015	
Doctoral and Master's Degree	12	%	13	%
Bachelor's Degree	71	%	69	%
Associate Degree	17	%	18	%

Academic Quality and Integrity

We believe learning outcomes and career readiness are attained by our students as a result of the quality learning experience they are provided. Those learning experiences are facilitated by career-oriented program development, engaging instructional delivery and qualified faculty.

Program Development

Our universities develop and deliver a variety of programs resulting in the award of credentials ranging from certificates and diplomas to master’s and doctoral degrees in career-oriented programs of study including business studies, information technologies, health education and visual communication and design technologies.

CEC’s curricula, instructional delivery tools, and experienced faculty comprise the learning experience that appeals to our student population and provides them with a unique opportunity to develop the knowledge, skills and competencies required for specific career outcomes. The curriculum development process focuses on desired career outcomes, while considering relative competencies necessary to achieve these career outcomes, as well as recommendations set forth by advisory boards, programmatic accrediting agencies and industry standards. Subsequently, learning objectives are identified and courses are developed which foster student engagement in activities and optimally result in the attainment of program learning outcomes and employment readiness.

Instructional Delivery

CEC’s instructional delivery is based upon the belief that learning is dependent upon instructional methodologies that facilitate student engagement with the instructor, with other students and with the course content. This engagement is fundamental to student learning outcomes, regardless of whether instruction occurs within a physical or virtual classroom.

Construction of a virtual campus that engages online students with their instructor, their peers and the content is critical to the achievement of student learning outcomes. CEC’s online instructional delivery is accomplished utilizing an innovative, student-focused learning management system. While online content delivery is very common today, CEC’s course content delivery system, M.U.S.E. (My Unique Student Experience), has several features that make it distinctive in the education marketplace. Designed around the students, M.U.S.E. is a rich, engaging student experience that represents an innovative online method of delivering content.

CEC continues to invest in its methods for delivering online education. CEC has implemented the use of sophisticated adaptive learning technologies, referred to as intellipath, within our University institutions. Our roll-out of these technological tools is coupled with extensive faculty training. Continuous assessment facilitates the development of individualized, dynamic learning maps that both illustrate where student mastery has been achieved and where additional work is needed. Both the student and the instructor can see in real time where learning has taken place and where effort still needs to be applied. Additionally, students have access to a mobile application which was created to complement students’ mobile-centric lives. The student benefits of the mobile applications include motivating students and helping them connect with the university and remain on track with their course of study.

Faculty

CEC employs more than 2,400 credentialed, geographically disbursed, full-time and adjunct faculty who facilitate learning in our classrooms and virtual classrooms. Our faculty are hired, assigned, developed and evaluated in compliance with current accepted higher education practices and in compliance with state, institutional accreditation and programmatic accreditation standards. Generally, all colleges and universities require the instructor to have a degree at least one level higher than the level of course being taught (with the exception of faculty in our doctoral programs) plus teaching and/or industry experience. General education faculty members must possess at least a master's degree. The average tenure of a CEC faculty member is greater than four years. We believe the longevity of our instructors is a testament to the focus we place on student learning and the consistent quality we strive for in our classrooms.

Faculty Competencies

With the input of faculty and academic leadership across each of our institutions, we have developed a set of instructor competencies that are critical to student success and institutional effectiveness. These competencies provide the basis for faculty recruitment, hiring, orientation, evaluation and development. The competencies apply to all instructors, regardless of content area, instructional platform (campus-based or online) and employment status (full-time, part-time, adjunct). Faculty hired by any CEC institution must demonstrate proficiency in each of the following competencies:

- communication;
- assessment of student learning;
- instructional methodology (pedagogy);
- subject matter expertise;
- utilization of technology to enhance teaching and learning;
- acknowledgement and accommodation of diversity in learners;
- student engagement;
- promotion of active student learning;
- compliance with policy; and
- demonstration of scholarship.

Student Graduation and Employment

The employment of our students in their field of study is an important element of our educational mission. To this end, each of our institutions has a career services department whose primary responsibility is to help prepare students to conduct a successful job search and to help identify job opportunities with employers. In addition, our career services staff assists students in identifying employment to assist with financial support while our students pursue their education. Employer relationship development, part-time employment and internship opportunities are important parts of our overall employment success strategy, as they lead to future opportunities for our students and graduates in their chosen profession.

Compliance with Regulations

Specialized staff review, interpret and establish procedures for compliance with regulations governing financial assistance programs and processing financial aid applications. Because financial assistance programs are required to be administered in accordance with the standard of care and diligence of a fiduciary, any regulatory violation can be the basis for disciplinary action, including the initiation of a suspension, limitation or termination proceeding against one or all of our institutions.

All CEC institutions undergo an annual independent compliance audit for all Title IV programs as well as a variety of other compliance submissions and reviews from ED, the Department of Veteran's Affairs, various state licensing

agencies and institutional accreditors. CEC’s efforts to maintain compliance with all of these regulatory requirements are extensive and include:

- Corporate and institutional resource teams that responds to student concerns;
- Robust institutional effectiveness programs at each institution focused on continuous improvement;
- A centralized corporate financial aid quality assurance team that continuously audits financial aid packaging, awarding, disbursements and returns to ensure compliance with ED, Department of Veterans Affairs or other requirements;
- A centralized data and reporting team responsible for ensuring consistency in methodologies for calculating and supporting the various reports on student outcomes and submissions to regulators or the public;

- An internal audit function reporting directly to the Audit Committee of the Board of Directors that audits and regularly monitors our operations, including compliance with regulations;
- A legal and regulatory group that assists with the development and implementation of procedures and process controls and monitors execution to maintain compliance with federal and state regulations, as well as monitoring of federal and state regulatory developments;
- A media compliance team that is responsible for the review and approval of student and public communications and media including advertising materials, web content and maintaining internal and external advertising standards;
- Regular monitoring of recorded phone calls in order to support efforts to maintain quality student interactions;
- Use of compliance-approved materials when speaking to potential and current students; and
- Required annual ethics training that every employee must complete and quarterly compliance certifications for staff engaged in student recruitment, financial aid counseling and processing, career services and campus leadership.

Employees

As of December 31, 2016, we had a total of 5,149 employees, including 349 students employed on a part-time basis at certain of our institutions, as follows:

	Full-time Non-student Employees	Part-time Non-student Employees	Part-time Student Employees	Full-time Faculty	Part-time Faculty (adjunct)	Total
CTU	668	7	87	54	1,196	2,012
AIU	613	8	88	42	574	1,325
Total University Group	1,281	15	175	96	1,770	3,337
Corporate and Other	816	13	1	-	-	830
Culinary Arts	132	1	107	137	69	446
Transitional Group	86	3	66	43	338	536
Total employees	2,315	32	349	276	2,177	5,149

ACCREDITATION AND JURISDICTIONAL AUTHORIZATIONS

Institutional Accreditation

In the United States, accreditation is a process through which an institution subjects itself to qualitative review by an organization of peer institutions. Accrediting agencies primarily examine the academic quality of the instructional programs of an institution, and a grant of accreditation is generally viewed as confirmation that an institution’s programs meet generally accepted academic standards. Accrediting agencies also review the administrative and financial operations of the institutions they accredit to ensure that each institution has the resources to meet its educational mission.

Pursuant to provisions of the Higher Education Act, ED relies on accrediting agencies to determine whether institutions’ educational programs qualify the institutions to participate in Title IV Programs. The Higher Education Act and its implementing regulations specify certain standards that all recognized accrediting agencies must adopt in connection with their review of postsecondary institutions.

Institutions in our University Group are accredited by The Higher Learning Commission (“HLC”) (www.hlcommission.org). AIU’s next re-affirmation of accreditation is scheduled for 2023-24, with its next comprehensive evaluation in May 2018. CTU’s next re-affirmation of accreditation is scheduled for 2022-23, with its next comprehensive evaluation in May 2017.

In August 2016, HLC adopted changes to its Special Monitoring Policy following a brief notice and comment period. The revisions to the Special Monitoring Policy allow the President of HLC, after consulting with the HLC Board of Trustees, to publicly designate an institution as a school "in financial distress" or "under governmental investigation." The factors listed that could give rise to a "financial distress" designation include: significant diminished financial contribution from a state; significant escalation in institutional indebtedness; placement by ED on Heightened Cash Monitoring for significant reasons related to finances or financial management of the institution or any parent or superordinate entity; formal declaration by the institution of financial exigency or emergency; going concern warning by the institution's auditors; or other similar financial situations. The governmental investigation designation could be triggered by any of the following: an investigation by one or more state attorneys general, the Federal Trade Commission, the U.S. Department of Justice or other federal agency; a notice of intended limitation, suspension or termination action by ED; or other significant investigations, litigation or enforcement action by or joined by a governmental authority related to institutional or academic operations or activities. Either of these designations may result in additional monitoring and/or financial

reporting by the institution and a strict scrutiny review by HLC of any requests for substantive change at the institution, requiring the institution to demonstrate a compelling reason for the change and that it has sufficient resources to support the change.

The breadth of conditions in the revised Special Monitoring Policy that could result in the public designation of an institution as “in financial distress” or “under governmental investigation” may cause our HLC-accredited institutions, AIU and CTU, to be labeled with one and possibly both of these designations. See Note 11 “Contingencies” to our consolidated financial statements for information regarding the current Heightened Cash Monitoring status imposed on our institutions and certain current pending governmental inquiries. The status and timing of certain investigations and other actions that could result in one of these designations may be unknown and open-ended and, in some cases, we are not informed when they are closed or completed. Although HLC indicates that the designations would typically not extend beyond two years, it would be difficult to predict if and when our institutions would be in a position to remove these designations by HLC should they be applied according to the policy. The imposition of these public designations and the potential limitation on our ability to implement substantive changes at our HLC-accredited institutions could have a material adverse impact on our business, results of operations, cash flows and financial condition.

Our Transitional Group and Culinary Arts campuses, which are in teach-out, are also institutionally accredited as listed below through their expected closure date. Many are subject to supplemental reporting requirements so that the relevant accrediting agency may monitor student achievement outcomes and the financial position of these campuses. Any regulatory sanctions regarding outcomes for these campuses will not take effect since the programs are already in teach-out, which is typically the required action for failure to achieve a minimum standard within the specific time period.

In order to participate in Title IV Programs, an institution must be accredited by an accrediting agency recognized by ED. All accrediting agencies that are recognized by ED are subject to periodic review by ED, at which time ED determines whether the agency continues to meet ED’s recognition criteria. In 2016, ED did not renew its recognition for the Accrediting Council for Independent Colleges and Schools (“ACICS”), the institutional accreditor for the majority of our Transitional Group and Culinary Arts campuses. ACICS had sought renewal of its recognition which expired in 2016; on September 22, 2016, ED informed ACICS that ED staff had denied renewal of this recognition. The decision was appealed by ACICS and after a review of the appeal by the Secretary of Education, he affirmed the denial decision on December 12, 2016. ACICS’ motions for temporary and preliminary injunctions were denied. Subsequent to the Secretary’s decision, ED issued new provisional program participation agreements for all ACICS schools that expire on June 12, 2018, 18 months after the final decision by the Secretary (or on their earlier closure date). The provisional program participation agreements include an addendum that outlines the terms and conditions under which the institution can remain eligible to participate in Title IV Programs during this 18 month period. All of our ACICS-accredited campuses are in teach-outs that are expected to be complete prior to the expiration of this 18 month period. Therefore, we do not plan to seek other institutional accreditation for our ACICS-accredited campuses. These institutions are abiding by both the additional terms of their provisional program participation agreements in order to retain Title IV Program eligibility as well as the ACICS criteria to satisfy certain state licensing requirements during this transitional period. To date, state licensing agencies have provided institutions with the ability to retain their licensure despite the fact that ACICS is no longer recognized by ED. We continue to keep these agencies informed throughout this process.

Transitional Group and Culinary Arts Institutional Accreditation Table [(1)]

Institution, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Accreditor [(2)]
Briarcliffe College	
Bethpage, NY (includes Online) (Patchogue, NY)	MSCHE

Harrington College of Design	
Chicago, IL	HLC
Le Cordon Bleu College of Culinary Arts	
Austin, TX (Dallas, TX; Sacramento, CA; and Seattle, WA)	ACICS
Pasadena, CA	ACICS
Portland, OR (Tucker, GA and Mendota Heights, MN)	ACICS
San Francisco, CA	ACICS
Scottsdale, AZ (includes Online) (Cambridge, MA; Las Vegas, NV; and Miramar and Orlando, FL)	ACICS
Le Cordon Bleu College of Culinary Arts in Chicago	
Chicago, IL	HLC
Sanford-Brown College	
Chicago, IL	ACICS
Brooklyn Center, MN (Mendota Heights, MN)	ACICS
Tampa, FL (Orlando, FL; Henderson, NV; San Antonio, TX; Seattle, WA; and Online)	ACICS

(1) Status as of February 23, 2017.
(2) Below is a key to the accreditation abbreviations used in the table above:
a. ACICS – Accrediting Council for Independent Colleges and Schools
b. MSCHE – Middle States Association Commission on Higher Education
c. HLC – Higher Learning Commission

Programmatic Accreditation

In addition to the institutional accreditations described above, a number of our institutions have specialized programmatic accreditation for particular educational programs. Many states and professional associations require professional programs to be accredited, and require individuals who must pass professional license exams to have graduated from accredited programs. Programmatic accreditation, while not a sufficient basis for institutional Title IV Program certification by ED, provides additional quality review by peers in a given field and may enable or assist graduates to practice, sit for licensing or certification exams (in some cases) or otherwise secure appropriate employment in their chosen field. In addition to programmatic accreditation, some states have licensing boards which regulate who in a state is licensed to practice in a given profession.

Our schools pursue programmatic accreditation if said accreditation is required by employers or licensing bodies in order for a graduate to practice the profession or if it is required in order for a graduate to sit for a licensing or certification exam in order to practice or advance in the profession. In some cases, programmatic accreditation is sought because it is desired by employers and may enhance the ability of our graduates to compete for employment in their field.

Programmatic accreditation has been granted by the following accrediting agencies for the following individual programs offered by our University Group institutions. Programmatic accreditation is also held by certain programs offered by campuses in the Transitional Group and Culinary Arts (all of which are in teach-out), but is not included in the table below.

Programmatic Accreditation Table [(1)]

Accreditor	Campus	Program Accredited
Accreditation Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Electrical engineering and computer engineering
Accreditation Council for Business Schools and Programs	American InterContinental University: Atlanta, Houston and Schaumburg; Colorado Technical University: Colorado Springs and Denver	Business
Commission on Collegiate Nursing Education	Colorado Technical University, Colorado Springs	Nursing
Council for the Accreditation of Educator Preparation	American InterContinental University, Schaumburg and Atlanta	Education
Project Management Institute Global Accreditation Center	Colorado Technical University: Colorado Springs and Denver	Project management

(1) Status as of February 23, 2017.

State Authorization

State licensing agencies are responsible for the oversight of educational institutions, and continued approval by such agencies is necessary for an institution to operate and grant degrees, diplomas or certificates to its students. State laws establish standards for, among other things, student instruction, qualifications of faculty, location and nature of facilities, and financial policies. State laws and regulations may limit our campuses' ability to operate or to award degrees or diplomas or offer new degree programs. Moreover, under the Higher Education Act, approval by such agencies is necessary to maintain eligibility to participate in Title IV Programs. As a result, we are subject to regulation in the states where our physical campuses or administrative offices are located. Currently, each of our ground-based campuses is authorized by the state in which it is located. Additionally, our online institutions have sought confirmation of an exemption, separate state approval or recognition from the relevant state agency via participation in a consortia program called the State Authorization Reciprocity Agreement ("SARA") in the states in which they enroll and/or recruit students.

SARA is an agreement among member states, districts and U.S. territories that establishes comparable national standards for interstate offering of postsecondary distance education courses and programs. States, districts and territories apply to become members

of SARA (which, in many cases, requires action by state legislators) and if accepted, institutions approved in their "home" state may apply to become participants in the SARA compact and the "home" state authorization is deemed acceptable to operate an online program in other states that also participate in SARA as long as they do not establish a "physical presence" in those other states (as defined by SARA). As of January 1, 2017, 47 states plus the District of Columbia are SARA participants (www.nc-sara.org). AIU and CTU are approved to participate in SARA by their home states (Illinois and Colorado, respectively). For those states that have not adopted laws to participate in SARA, local rules and thresholds for licensure apply. The state of California, which is not part of SARA, adopted new rules which will require our online schools to be registered with the state. The state has not yet issued specific guidance regarding this process, which goes into effect on July 1, 2017.

ED recently published new regulations, to be effective July 1, 2018, that condition Title IV Program eligibility on confirmation that an institution has the appropriate state approvals from any state which requires institutions to obtain its approval. The new regulations recognize SARA participation as a means to qualify in a state through reciprocity, which alleviates most of the impact. On January 30, 2017, in a notice published in the Federal Register, ED indicated that this rule was one of many it intended to review for potential modification.

Additional State Regulatory Matters

Over the past several years, states have increased their focus on the private, postsecondary education sector. This includes increased activity by state attorneys general in their review of the sector. In this regard, we have several pending inquiries by state attorneys general. See Note 11 "Contingencies – State Investigations" to our consolidated financial statements for more information about these inquiries.

Additionally, on August 19, 2013, the Company entered into an Assurance of Discontinuance with the New York Attorney General. Under the terms of this agreement, without admitting or denying any findings by the New York Attorney General, the Company agreed to, among other things: calculate and disclose placement rates according to agreed upon procedures and retain an independent consultant or audit firm to independently verify and report on such placement rates and to teach out programs going forward that do not achieve a 47.5% minimum placement rate. The Company's Transitional Group campuses in New York as well as AIU Online and CTU Online have each reported and published this additional agreed upon placement rate which, in the case of AIU Online and CTU Online, only includes New York resident graduates. For the 2016 reporting year, none of the rates required to be calculated for AIU Online and CTU Online were below the minimum threshold required by the Assurance of Discontinuance. The Company's remaining Transitional Group campus in New York is in teach-out and therefore no further action should be necessary with respect to programs which report rates below the minimum threshold.

STUDENT FINANCIAL AID AND RELATED FEDERAL REGULATION

Many of our students require assistance in financing their education. Our institutions are approved to participate in the U.S. Department of Education's Title IV federal aid programs. Our institutions also participate in a number of state financial aid programs, tuition assistance programs of the United States Armed Forces, education benefits administered by the Department of Veterans Affairs and other alternative funding sources. Our institutions that participate in federal and state financial aid programs are subject to extensive regulatory requirements imposed by federal and state government agencies, and other standards imposed by educational accrediting bodies.

Nature of Federal Support for Postsecondary Education in the United States

The U.S. government provides a substantial portion of its support for postsecondary education in the form of Title IV Program grants, loans and work-study programs to students who can use those funds to finance certain education related expenses at any institution that has been approved to participate by ED. These federal programs are authorized by the Higher Education Act. While most students are eligible for a Title IV loan, more generally, financial aid administered under Title IV is awarded on the basis of financial need, which is generally defined under the Higher

Education Act as the difference between the costs associated with attending an institution and the amount a student's family can reasonably be expected to contribute based on a federally determined formula. Among other things, recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study.

Students at our institutions may receive grants, loans and work-study opportunities to fund their education under the Title IV Programs described in the sections below. In addition, some students at our institutions receive education related benefits pursuant to certain programs for veterans and military personnel, the most significant of which are described further below.

Federal Student and Parent Loans

ED's major form of aid includes loans to students and parents through the William D. Ford Federal Direct Loan ("Direct Loan") Program. Direct Loans are loans made directly by the U.S. Government to students or their parents. The Direct Loan program offers Federal Direct Stafford, Federal Direct PLUS (which provides loans to parents of dependent students and to graduate or professional students, known as Parent PLUS and Grad PLUS) and Federal Direct Consolidation Loans.

Undergraduate students who have demonstrated financial need may be eligible to receive a Direct Subsidized Loan, with ED paying the interest on this loan while the student is enrolled at least half-time in school. Graduate and undergraduate students who do not demonstrate financial need may be eligible to receive a Direct Unsubsidized Loan. Graduate/professional students may only receive Direct Unsubsidized Loans. With Direct Unsubsidized Loans the student is responsible for the interest while in school and after leaving school, although actual interest payments generally may be deferred by the student until after he or she has left school. Students who are eligible for a Direct Subsidized Loan may also be eligible to receive a Direct Unsubsidized Loan.

A student is not required to meet any specific credit scoring criteria to receive a Direct Loan, but any student with a default on a prior loan made under any Title IV Program or who has been convicted under federal or state law of selling or possessing drugs while receiving federal aid may not be eligible. ED has established maximum annual and aggregate borrowing limits for Direct Loans.

The Direct PLUS Loan Program provides loans to either the parents of dependent students (Direct Parent PLUS) or to graduate students (Direct Grad PLUS). Parents and graduate students who have an acceptable credit history may borrow a Direct PLUS Loan to pay the education related expenses of a child who is a dependent (Direct Parent PLUS) or a graduate student (Direct Grad PLUS) enrolled at least half-time at our eligible institutions. The amount of a Direct PLUS Loan cannot exceed the student’s cost of attendance less all other financial aid received.

Federal Pell Grant and Federal Supplemental Education Opportunity Grant

Title IV Program grants are generally made to our students under the Federal Pell Grant (“Pell Grant”) program and the Federal Supplemental Educational Opportunity Grant (“FSEOG”) program. The 2016-17 maximum annual Pell Grant is $5,815. The FSEOG program awards are designed to supplement Pell Grants up to a maximum amount of $4,000 per academic year for the neediest students. Our institutions are required to provide matching funding for FSEOG awards that represent not less than 25% of the total FSEOG award to be received by eligible students. The matching may be accomplished through institutional, private and/or state funds.

Federal Work-Study Program

Generally, under the federal work-study program, federal funds are used to pay 75% of the cost of part-time employment of eligible students to perform work for the institution or certain off-campus organizations. The remaining 25% is paid by the institution or the student’s employer. In select cases, these federal funds under the federal work-study program are used to pay up to 100% of the cost of part-time employment of eligible students.

Veterans Benefits Programs

Some of our students who are veterans use their benefits under the Montgomery GI Bill or the Post-9/11 Veterans Educational Assistance Act of 2008, as amended (“Post-9/11 GI Bill”), to cover their tuition. A certain number of our students are also eligible to receive funds from other education assistance programs administered by the Department of Veterans Affairs.

The Post-9/11 GI Bill Yellow Ribbon expanded education benefits for veterans who have served on active duty on or after September 11, 2001, including reservists and members of the National Guard. As originally passed, the Post-9/11 GI Bill provided that eligible veterans could receive benefits for tuition purposes up to the cost of in-state tuition at the most expensive public institution of higher education in the state where the veteran was enrolled. In addition, veterans who were enrolled in classroom-based programs or “blended programs” (programs that combine classroom learning and distance learning) could receive monthly housing stipends, while veterans enrolled in wholly distance-based programs were not entitled to a monthly housing stipend. The provisions regarding education benefits for post-9/11 veterans took effect August 1, 2009. The Post-9/11 GI Bill also increased the amount of education benefits available to eligible veterans under the pre-existing Montgomery GI Bill. The legislation also authorized expansion of service members’

ability to transfer veterans' education benefits to family members.

On January 4, 2011, the President signed the Post-9/11 Veterans Educational Assistance Improvements Act of 2010 ("Improvements Act") which amends the Post-9/11 GI Bill in several respects. The Improvements Act alters the way benefits related to tuition and fees are calculated. For nonpublic U.S. institutions, the Improvements Act bases the benefits related to tuition and fees on the net cost to the student (after accounting for state and federal aid, scholarships, institutional aid, fee waivers, and similar assistance paid directly to the institution for the sole purpose of defraying tuition cost) rather than the charges established by the institution. The Improvements Act also replaced the state-dependent benefit cap with a single national cap which is adjusted annually and as of August 1, 2016 is $21,970. In addition, veterans pursuing a program of education solely through distance learning on a more than half-time basis are eligible to receive up to 50% of the national average of the basic housing allowance available to service members who are at military pay grade E-5 and have dependents. Most "Improvements Act" changes took effect on August 1 or October 1, 2011, though changes to rules regarding eligibility for benefits were effective immediately or retroactively to the effective date of the Post-9/11 GI Bill. The Improvements Act did not change the Post-9/11 GI Bill's provision that allows veterans to receive up to $1,000 per academic year for books, supplies, equipment and other education costs.

U.S. Military Tuition Assistance

Service members of the United States Armed Forces are eligible to receive tuition assistance from their branch of service through the Uniform Tuition Assistance Program of the Department of Defense (“DoD”). Service members may use this tuition assistance to pursue postsecondary degrees at postsecondary institutions that are accredited by accrediting agencies that are recognized by ED. Each branch of the armed forces has established its own rules for the tuition assistance programs of DoD.

In 2010, both the U.S. Congress and DoD increased their focus on DoD tuition assistance that is used for distance education and programs at for-profit institutions. The DoD Voluntary Education Partnership Memorandum of Understanding (“MOU”) was established as part of the revised DoD Instruction 1322.25, Voluntary Education Programs dated March 15, 2011. The MOU increases oversight of educational programs offered to active duty service members and conveys the commitments and agreements between the educational institution and DoD prior to accepting funds under the tuition assistance program. For example, the MOU requires an institution to agree to support DoD regulatory guidance, adhere to a bill of rights that is specified in the regulations, and participate in the proposed Military Voluntary Education Review program. Under the MOU, institutions must also agree to adhere to the principles and criteria established by the Service Members Opportunity Colleges Degree Network System regarding the transferability of credit and the awarding of credit for military training and experience. Each of AIU and CTU signed this earlier version of the DoD’s standard MOU.

In August 2013, DoD began incorporating the Principles of Excellence outlined in the President’s 2012 Executive Order into their current MOU. Refer to the section below for more information on the Principles of Excellence.

In May 2014, DoD released a final version of its revised MOU and its changes include efforts to enhance departmental oversight of voluntary education programs as well as incorporate the remaining requirements as stated in the President's Executive Order 13607. The new provisions apply to all educational institutions providing education programs through the DoD tuition assistance program. Among other things, the MOU requests that participating institutions provide meaningful information to students about the financial cost and attendance at an institution so military students can make informed decisions on where to attend school, will not use unfair, deceptive, and abusive recruiting practices and will provide academic and student support services to service members and their families. The revised MOU also implemented rules to strengthen existing procedures for access to DoD installations by educational institutions, a DoD postsecondary education complaint system for service members, spouses, and adult family members to register student complaints and established authorization for the military departments to establish service-specific tuition assistance eligibility criteria and management controls. In September 2014, each of AIU and CTU signed DoD’s revised MOU.

2012 Executive Order Regarding Military and Veterans Education Benefits

On April 27, 2012, the President issued an executive order regarding the establishment of Principles of Excellence for educational institutions receiving funding from federal military and veterans educational benefits programs, including those provided by the Post-9/11 GI Bill and Uniform Tuition Assistance Program of the DoD. The executive order requires DoD, the Department of Veterans Affairs and ED to establish and implement “Principles of Excellence” to apply to educational institutions receiving such funding. The goals of the Principles are broadly stated in the order and relate to disclosures of costs and amounts of costs covered by federal educational benefits, marketing standards, state authorization, accreditation approvals, standard institutional refund policies, educational plans and academic and financial advising. Various implementation mechanisms are included, along with the development and implementation of the “VA Shopping Sheet,” a standardized cost form with federal aid information. While additional administrative support has been required to comply with the executive order, the overall impact to the Company has not been material.

Veterans Education Benefits for Students at ACICS-Accredited Institutions

In order for its students to receive veteran's benefits, an institution must be accredited by an agency recognized by the U.S. Department of Education. This requirement had the potential to negatively impact veteran students at ACICS-accredited institutions since ED did not renew its recognition of that agency. The President signed a bi-partisan bill (which became Public Law 114-228) on September 29, 2016 to alleviate the impact on students by allowing a transition period for institutions. The law permits the Department of Veterans Affairs to continue approval for programs at ACICS-accredited institutions for up to 18 months unless the Department of Veterans Affairs or the state approving agency determines that there is evidence to support program disapproval. This 18-month period matches the time frame ED has adopted for institutions to maintain Title IV Program eligibility while they close or transition to another ED recognized accreditor.

Institutional Payment Plans

Some of our students will enter into institutional payment plans with our institutions to pay either all, or more commonly, a portion of their institutional charges directly to the school. This is more common for students who have a gap between their Title IV financial aid funding and other third party aid available to them and the institutional charges. We offer these payment plans over the in-school period, and up to 12 months beyond graduation. The payment plans do not include any interest or fees.

Eligibility and Certification by ED

Under the provisions of the Higher Education Act, an institution must apply to ED for continued certification to participate in Title IV Programs at least every six years or when it undergoes a change of control. In addition, an institution must obtain ED approval for certain substantial changes in its operations, including changes in an institution’s accrediting agency or state authorizing agency or changes to an institution’s structure or certain basic educational features.

Institutions approved to participate in Title IV sign a program participation agreement provided by ED that describes the terms of participation and includes a number of certifications and assurances made by the chief executive officer. As long as an institution has submitted an application for re-certification prior to the expiration of its current program participation agreement, the institution’s eligibility to participate in Title IV Programs continues on a month-to-month basis until ED completes its review. ED may issue full certification to an institution, it may deny certification or it may elect to issue provisional certification, in which case the program participation agreement outlines additional requirements that the institution must meet.

ED may place an institution on provisional certification status if it finds that the institution does not fully satisfy all required eligibility and certification standards. Provisional certification does not generally limit an institution’s access to Title IV Program funds. ED may withdraw an institution’s provisional certification without advance notice if ED determines that the institution is not fulfilling all material requirements.

All of our institutions, including AIU and CTU, are currently operating on a provisional program participation agreement. AIU and CTU each have a program participation agreement that expired on December 31, 2016 and as a result are operating on a month-to-month approval pending ED’s review and processing of their pending applications for recertification. In addition, in December 2016, ED upheld the decision and the recommendations of the National Advisory Committee on Institutional Quality and Improvement to cease recognition of the Accrediting Council for Independent Colleges and Schools (ACICS). By statute, as a result of ACICS's loss of recognition, all affected institutions have been placed on provisional certification until they gain accreditation by another federally recognized accreditor, the expiration of an 18-month period or their closure. All of our ACICS-accredited schools are in teach-out, operating on a provisional certification, and we believe will complete the teach-out before the 18-month timeframe expires. The newly issued provisional program participation agreements subject CEC to additional reporting requirements. See Item 1A, “Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate – If ED denies, or significantly conditions, recertification of any of our institutions to participate in Title IV Programs, that institution could not conduct its business as it is currently conducted,” and other risk factors in Item 1A for additional information about the risks surrounding continued participation in Title IV Programs.

Increased Scrutiny of the For-Profit, Postsecondary Education Sector

In recent years, Congress, ED, states, accrediting agencies, the Consumer Financial Protection Bureau (“CFPB”), the Federal Trade Commission (“FTC”), state attorneys general and the media have increased their scrutiny of the for-profit, postsecondary education sector. Congressional hearings and roundtable discussions have been held regarding various aspects of the education industry, including issues surrounding student debt as well as publicly reported student outcomes that may be used as part of an institution’s recruiting and admissions practices, and reports have been issued that are highly critical of for-profit colleges and universities and include a number of recommendations to be considered by Congress in connection with the upcoming reauthorization of the Higher Education Act. A group of influential U.S. senators has strongly and repeatedly encouraged ED and the Departments of Defense and Veterans Affairs to take action to limit or terminate the participation of institutions such as ours in existing tuition assistance programs.

In addition, ED has formed an inter-agency task force focused on the private, postsecondary education sector involving multiple federal agencies and departments, including the FTC, the U.S. Departments of Justice, Treasury

and Veterans Affairs, the CFPB, the Securities and Exchange Commission, and numerous state attorneys general, to coordinate activities and share information to protect students from unfair, deceptive and abusive policies and practices.

At this time, the future direction of many of these initiatives is uncertain as they may be impacted by federal budget cuts and/or shifts in policy goals and administration priorities. Any actions that limit our participation in Title IV Programs or the amount of student financial aid for which our students are eligible would negatively impact our business. See Item 1A, "Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate – Increased scrutiny of the for-profit postsecondary education sector by Congress and various state and federal governmental agencies have resulted in adverse publicity and increased regulatory burdens and costs, and this trend may continue."

Legislative Action and Recent ED Regulatory Initiatives

The U.S. Congress must periodically reauthorize the Higher Education Act and other laws governing Title IV Programs and annually determines the funding level for each Title IV Program.

The Higher Education Opportunity Act ("HEOA") was the most recent reauthorization of the Higher Education Act and was signed into law on August 14, 2008. It was immediately effective for many items with others effective in subsequent years. The HEOA authorized increases in the Federal Pell Grants, changed certain grant eligibility requirements, expanded Stafford Loan

deferment options, provided changes to needs analysis, changed treatment of Veterans Administration benefits effective with the 2010-11 award year and revised many of the regulations governing an institution's eligibility to participate in Title IV Programs.

Historically, Congress has reauthorized the Higher Education Act every five to six years. The last full reauthorization took place in 2008 and Congress has subsequently taken several actions which effectively extend the Higher Education Act and various Title IV Programs on a temporary basis. We anticipate that Congress will work to either reauthorize the Higher Education Act in its entirety or pass a series of smaller bills that focus on individual parts of the Higher Education Act, primarily Title IV Programs. Certain legislation has been introduced that is focused on simplifying both access to and repayment of Title IV funds. While it is uncertain whether those proposals will be enacted into law, simplifying the federal student aid programs and reducing the complexity of repayment should be of benefit to our students. However, continued scrutiny of the for-profit postsecondary education sector and the ongoing policy differences in Congress regarding spending levels could lead to significant regulatory changes in connection with the upcoming reauthorization of the Higher Education Act, and many of these changes may be adverse to postsecondary institutions generally or for-profit institutions specifically.

On January 20, 2017, White House Chief of Staff Reince Priebus issued a directive to the heads of each of the executive agencies, including ED, calling for a "regulatory freeze pending review" to allow for a 60 day delay in the effectiveness of certain new regulations to ensure that President Trump's appointees and designees have the opportunity to review new or pending regulations. The freeze applies generally to pending regulatory actions and also published regulations that have not yet taken effect. On January 30, 2017, ED published in the Federal Register a notice applying this executive order to temporarily pause the effectiveness of a few actions ED had taken. In this notice ED also indicated that it intends to take additional regulatory action with respect to other regulations that have been published in the Federal Register but had not taken effect as of January 20, 2017, including ED's regulations for "borrower defense to repayment," TEACH Grants and state authorization. At this time, it is uncertain what actions ED will ultimately take regarding these and other regulations promulgated by the previous administration.

Program Integrity and Improvement

In recent years, ED has engaged in significant rulemaking efforts intended to develop new regulations focused on various topics. The negotiated rulemaking committee established to address program integrity and improvement issues for the federal student aid programs met four times from February through May 2014. Topics for discussion included clock-to-credit-hour conversion, state authorization (distance education and foreign institutions), cash management, retaking coursework and the definition of adverse credit for Direct PLUS loan eligibility. At their final meeting in May of 2014, the taskforce agreed on only four out of six topics negotiated. Because the team failed to reach consensus on all items, ED had discretion to develop its own regulatory language for comment.

On August 8, 2014, ED published proposed regulations to update eligibility standards and improve access for student and parent borrowers under the Federal Direct PLUS Loan Program. Final rules were published on October 23, 2014 updating the standard for determining if a potential parent or student borrower has an adverse credit history for purposes of eligibility for a Direct PLUS Loan. These regulations also require parents and students who have an adverse credit history, but who are approved for a Direct PLUS loan on the basis that extenuating circumstances exist or by obtaining an endorser for the loan, to receive loan counseling before receiving the loan. These rules went into effect July 1, 2015; however, ED allowed early implementation of the new criteria as early as March 29, 2015. The increase in administrative burden under these new regulations has not had a material effect on our business.

On October 30, 2015, ED published program integrity and improvement final regulations on three items: cash management of Title IV federal student aid funds, which includes the use of stored value cards and issuing Title IV credit balances; clarification on the treatment of previously passed coursework for Title IV eligibility purposes; and simplification of the requirements for programs that must be treated like clock hour programs for the purposes of Title IV aid assessment. These new regulations remove the institutional authority to retain, with student authorization, any

Title IV credit balance for future allowable education related charges in the applicable award year for schools that are placed on Heightened Cash Monitoring. In addition, the regulations require the institution to issue a Title IV credit balance to the student prior to drawdown of funding from ED. As a result, the new regulations may result in an increase to our overall student receivables balances. We have instituted additional practices during the latter part of 2016 to collect these balances. As a result of these efforts, we have experienced increased collection but are not able to collect all monies that have been provided to students. Therefore, we expect to experience an increase in our allowance for doubtful accounts in future periods. The rules also define arrangements between an institution and a third-party servicer or financial institution when performing functions associated with processing direct payments of Title IV funds. The rules prohibit an institution from requiring students to obtain an access device into which their credit balances must be deposited and provides strict guidance on the marketing practices and methods in which students are presented choices to receive direct payments of Title IV funds if issued through an access device. These regulations required CEC to adjust the method in which we provide refund options to our students. In addition, ED provided clarification on specific instances where schools may include (or bundle) the cost of books and supplies with tuition charges. These regulations were effective July 1, 2016.

Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations

To be eligible to participate in Title IV Programs, an institution must comply with the Higher Education Act and regulations thereunder that are administered by ED. We and our institutions are subject to audits, compliance reviews, inquiries, investigations,

claims of non-compliance, and lawsuits by ED and federal and state regulatory agencies, accrediting agencies, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards or other regulatory requirements applicable to us or our institutions. If the results of any such audits, reviews, investigations, claims or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, provisional certification or other civil or criminal penalties. In addition, if ED or another regulatory agency determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the Higher Education Act or ED's regulations, that institution could be required to repay such funds, and could be assessed an administrative fine.

We have several such matters pending at one or more of our institutions. See Note 11 "Contingencies" to our consolidated financial statements for further discussion of certain of these matters, including that in December 2011 ED moved all of our institutions from what is called the Advance Method of Payment of Title IV funds to what is called Heightened Cash Monitoring 1, or HCM1, status. Although our prior practices substantially conformed to the requirements of this more restrictive method of drawing down students' Title IV Program funds, as noted above, ED subsequently adopted new cash management regulations for institutions on HCM1 that have adversely affected student borrowing. If ED finds violations of the Higher Education Act or related regulations, ED may impose monetary or program level sanctions, or transfer our institutions to the "reimbursement" or Heightened Cash Monitoring 2 ("HCM2") method of payment of Title IV Program funds, which would result in a significant delay in receiving those funds.

In October 2014, ED initiated an on-site program review of one of our third party servicers, Higher One, and simultaneous off-site program review of CTU. The review focused on CTU's cash management processes involving the issuance of Title IV credit balances via stored value cards. The review covered the 2012-13, 2013-14 and 2014-15 award years. We have remained responsive to any information requests from ED in this regard; however, we have not yet received the initial program review report.

In July 2015, ED conducted an ordinary course on-site program review of AIU's administration of Title IV Programs in which the institution participates. The review covered the 2014-2015 award year with a specific focus on the programs the institution offers via distance education. We have remained responsive to any information requests from ED in this regard; however, we have not yet received the initial program review report.

In November 2015, we were notified by ED that it, with the assistance of an external accounting firm, was going to conduct an assessment of CEC's compliance with the Student Right to Know Act. The review generally covers all CEC institutions with active OPEIDs and several institutions with OPEIDS for schools that we have closed or sold, but that had graduates and reported placement rates for the cohort under review. The notification included a request for an extensive volume of information related to placement and graduation rates for the cohort of students graduating between July 1, 2013 and June 30, 2014, together with supporting documentation for reported placements, policies and procedures for collecting and reporting placement information, required website program disclosures, information related to student complaints, employees responsible for placement tracking and reporting and advertising materials. We have provided ED and its accounting firm with the requested information and believe its review is ongoing. We believe this type of compliance assessment is a new type of review ED is performing on institutions and therefore we cannot predict the scope, duration or process that will be followed for the review.

The Higher Education Act also requires that an institution's administration of Title IV Program funds be audited annually by an independent accounting firm and that the resulting audit report be submitted to ED for review. In September 2016, the Department's Office of Inspector General (OIG) released a revised audit guide applicable specifically to proprietary schools and third-party servicers administering Title IV programs. The updated guide is effective for fiscal years beginning after June 30, 2016. The revised audit guide is effective for us for the period 1/1/2017 – 12/31/2017 and will be utilized for annual compliance audits submitted no later than June 30, 2018. The new guide significantly increases the requirements and testing procedures necessary when filing our annual Title IV

compliance audits; we are currently working with our audit firm to ensure compliance with the new guide.

Gainful Employment

CEC institutions, and most other for-profit institutions, qualify for Title IV Program participation on the basis that they offer programs that, in addition to meeting other requirements, "prepare students for gainful employment in a recognized occupation." During 2013, ED established negotiated rulemaking committees, one specifically designed to limit Title IV availability for programs at for-profit institutions by defining gainful employment in a recognized occupation. On October 30, 2014, ED published a new complex final regulation, effective July 1, 2015, to define "gainful employment" as meeting certain standards measuring the general amount students borrow for enrollment in a program against an amount of their reported earnings. Prior to this rulemaking, the term gainful employment had been used in the Higher Education Act for forty years, and had not been further defined by Congress or ED. The new definition establishes a formula by which ED will determine if a program is eligible to participate in Title IV Programs. The regulation requires graduates of programs within three years (or less) beyond graduation to, on average, have debt with annual loan payments that are less than 8% of their annual earnings or 20% of their discretionary income. Programs whose graduates have debt with annual loan payments that accounts for between 8% and 12% of their annual earnings, or between 20% and 30% of their discretionary income, will be considered to be in the "zone" for meeting the gainful employment standard. Programs whose graduates have debt with annual loan payments that are greater than 12% of annual earnings or 30% of discretionary income will fail the gainful

employment test. Institutions with a program that fails to meet the gainful employment test for two out of three consecutive years, or that is in the zone (or fails) for four consecutive years, lose eligibility for that program to participate in Title IV Programs for at least three years. Institutions with a program that is within a year of potentially disqualifying for participation in Title IV must notify current and prospective students of the program of its potential loss of access to Title IV Program funds and the plan for continuation of the program or refunding tuition to students should the program fail to pass the gainful employment threshold in the subsequent year.

Under the new regulation, debt is calculated based on the lesser of actual median or mean debt, or the cost of tuition, fees, books, supplies and equipment. For the first five to seven years after ED begins to report gainful employment results, depending upon the length of the academic program, ED will allow the substitution of the average debt of the most recent graduating cohort for the average debt of the measurement cohort. Earnings are based on data provided by the Social Security Administration ("SSA") to ED. Institutions have an opportunity to review and correct the list of students submitted to the Social Security Administration for the earnings query, but do not have an opportunity to inspect, review, question or appeal the results provided by SSA.

The gainful employment regulation includes a requirement that institutions disclose program level cohort default rates if directed to do so by ED.

On October 20, 2016, ED provided our institutions with their first program level draft debt-to-earnings rates under the new gainful employment regulation using 2014 earnings information obtained from SSA as well as program level median debt calculations. On January 8, 2017, final initial year gainful employment rates were published publicly for all institutions subject to the rules. The announcement was made with an ED press release stating that over 800 programs had not met its new criteria for gainful employment and another 1,239 programs were in the "zone" for meeting the gainful employment standard. In line with our expectations, AIU had two, and CTU had three, of its continuing programs in the "zone" for meeting the gainful employment standard. Each university also had one active program that failed to meet the standard; however, both of these programs have since ceased enrolling new students. All other programs that were in the zone or failed for the University Group and our Transitional Group and Culinary Arts segments had previously discontinued enrolling new students and are in the process of being taught out.

We continue to closely monitor the continuing programs within our University Group that are in the zone or are close to the threshold for being in the zone. The most significant of these are the Criminal Justice programs at AIU and CTU, which represent approximately 18% of University Group total enrollments as of December 31, 2016. We are working to launch new or modified programs or specializations that we believe are likely to have positive gainful employment outcomes. We believe a significant portion of students interested in the University Group programs that are in the zone or failed will migrate to other existing programs or to these new or modified programs or specializations. A program does not lose Title IV Program eligibility unless it fails the gainful employment test for two out of three consecutive years, or is in the zone (or fails) for four consecutive years. We will also continue to monitor programs that are in teach-out and did not pass this first year of the gainful employment test and we believe we will be able to minimize any impact to our students of a loss of Title IV Program eligibility prior to completion of a teach-out, if such a loss were to occur. These programs remain Title IV eligible unless and until they fail a second time in a three-year period. Because we rely on ED to provide us with the historical salary and debt information that is used in these calculations and due to the historical nature of the data used in the test, there can be no assurance that our actions will result in future compliance and the regulation could adversely affect the eligibility of the programs we offer.

The new regulation includes significant new disclosure requirements and creates additional certifications to which the chief executive officer of an institution must attest, including that the programs offered by the institution meet the requirements of states or professional licensing bodies in order for graduates to practice in the field. Also included in the new regulation is a requirement that any new or re-enrolled student must receive, either in person or by email, and acknowledge program level gainful employment disclosures, prior to signing an enrollment agreement, registering for classes or entering into a financial commitment with the institution. Unless ED makes further changes to the timing of

the implementation of this rule, the new requirement and the publishing of the updated gainful employment disclosures on program websites is required to be in place by April 3, 2017 which is sixty (60) days following ED's publishing of the new templates which occurred on January 19, 2017. We do not know if the new disclosure process that requires a separate email acknowledgment for our online students will have any material impact on our enrollments moving forward.

There can be no assurance that our future actions will result in compliance and the regulation could adversely affect the eligibility of the programs we offer. See Item 1A, "Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate - ED's gainful employment regulation may limit the programs we can offer students and increase our cost of operations," for more information about risks associated with the gainful employment regulation.

"90-10 Rule"

Under a provision of the Higher Education Act commonly referred to as the "90-10 Rule," any of our institutions that, on modified cash basis accounting, derives more than 90% of its cash receipts from Title IV sources for a fiscal year will be placed on provisional participation status for its next two fiscal years. If an institution does not satisfy the 90-10 Rule for two consecutive fiscal years, it will lose its eligibility to participate in Title IV Programs for at least two fiscal years. We have substantially no control over

the amount of Title IV student loans and grants sought by or awarded to our students. If an institution violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED could require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility.

We have implemented various measures intended to reduce the percentage of our institution's cash basis revenue attributable to Title IV Program funds, including emphasizing employer-paid and other direct-pay education programs; the use of externally funded scholarships and grants; and counseling students to carefully evaluate the amount of necessary Title IV Program borrowing.

The ability of our institutions to maintain 90-10 rates below 90% will depend on the impact of future changes in our enrollment mix, and regulatory and other factors outside of our control, including any reduction in government assistance for military personnel, including veterans, or changes in the treatment of such funding for purposes of the 90-10 rate calculation. Changes in, or new interpretations of, the technical aspects of the calculation methodology or other industry practices under the 90-10 Rule could further significantly impact our compliance with the 90-10 Rule.

For our 2016 fiscal year, our preliminary review of our institutions' 90-10 Rule percentages results in none of our institutions exceeding the 90% limit.

See Item 1A, "Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate – Our institutions could lose their eligibility to participate in federal student financial aid programs if the percentage of their revenues derived from those programs is too high," for additional information regarding risks relating to the 90-10 Rule.

Student Loan Default Rates

An institution may lose eligibility to participate in some or all Title IV Programs if the rates at which its former students default on the repayment of their federally-guaranteed or federally-funded student loans exceed specified percentages. This is determined by an institution's cohort default rate which is calculated on an annual basis as a measure of administrative capability. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). Previously the cohort default rate was measured on a two year period. The 2011 cohort was the last cohort to be measured under the two-year period and was published in September of 2013. As discussed below, the measurement period for the cohort default rate has transitioned to three years starting with the 2009 cohort.

Under the current three year measurement period if an educational institution's cohort default rate exceeds 10% for any one of the three preceding years, it must delay for 30 days the release of the first disbursement of U.S. federal student loan proceeds to first time borrowers enrolled in the first year of an undergraduate program. As a matter of regular practice, all of our institutions have implemented a 30-day delay for such disbursements.

Beginning with the 2009 cohort, if an institution's three-year cohort default rate exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate.

Beginning with the three-year cohort default rate for the 2011 cohort published in September 2014, only the three-year rates will be applied for purposes of measuring compliance with the requirements and imposing sanctions, as follows:

- Annual test. If the three-year cohort default rate for any given year exceeds 40%, the institution will cease to be eligible to participate in Title IV Programs; and
- Three consecutive years test. If the institution's three-year cohort default rate exceeds 30% for three consecutive years, beginning with the 2009 cohort, the institution will cease to be eligible to participate in Title IV Programs.

We have student loan default management initiatives at all of our institutions that participate in Title IV Programs aimed at reducing the likelihood of our students' failure to repay their loans in a timely manner. These initiatives emphasize the importance of students' compliance with loan repayment requirements and provide for loan counseling and communication with students after they cease enrollment. Our efforts supplement the counseling, processing and other student loan servicing work performed by ED through contracts it has with select third parties. The quality and nature of the student loan servicing work performed by ED has a direct impact on our cohort default rates and we have experienced past performance failures by ED in outreach to students which adversely impact the cohort default rates at our institutions. On January 18, 2017, the largest of ED's student loan servicers, Navient, was sued by the Consumer Financial Protection Bureau and the Illinois and Washington Attorneys General for allegedly failing to properly counsel and support student loan borrowers. We know many of our students have Navient as their designated student loan servicer, however we are not able to determine what impact the alleged conduct, if accurate, may have had or will have on cohort default rates.

See Item 1A, "Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate – Our institutions could lose their eligibility to participate in federal student financial aid programs or have other limitations placed upon them if their student loan cohort default rates are greater than the standards set by ED," for additional information regarding risks relating to cohort default rates.

In September 2016, ED released the official three-year cohort default rates for the 2013 cohort. Each of our institutions had cohort default rates under the 30% threshold for the 2013 cohort and, across our institutions as a whole, our three-year rates for 2013 decreased (i.e., improved), marking our fourth consecutive year of improvement since official three-year rates were first issued for the 2009 cohort. A listing of the official 2013, 2012 and 2011 three-year cohort default rates, for our universities is provided in the table below.

	Cohort Default Rates		
	3-year rate		
Institution, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	2013	2012	2011
American InterContinental University			
Schaumburg, IL (Online) (Atlanta, GA and Houston, TX)	14.7%	17.7%	21.0%
Colorado Technical University			
Colorado Springs, CO (Denver, CO and Online)	14.0%	17.7%	19.3%

Borrower Defense to Repayment

On October 28, 2016, ED issued complex, significant new regulations that cover multiple issues including the processes and standards for the discharge of student loans, which are commonly referred to as “borrower defense to repayment.” The regulations were published in the Federal Register on November 1, 2016 and are generally effective on July 1, 2017. A summary of the new regulations is set forth below. However, on January 30, 2017, ED announced its intention to take further regulatory action with respect to these regulations. We are uncertain at this time what further actions ED may take. Given the breadth and complexity of these new rules, we are still analyzing them and evaluating the potential impacts.

Loan Discharge. The new regulations provide three categories of borrower defenses that could be asserted by students with student loans disbursed on or after July 1, 2017, including:

- the institution has had a judgment issued against it in an action brought by a student or a government official or entity related to the loan or educational services in a contested proceeding;
- the institution failed to perform its obligations under the terms of a contract with the student; and
- the institution made a “substantial misrepresentation” about the nature of its programs, financial charges or employability of its graduates that the borrower reasonably relied upon on when he or she decided to attend or continue attending the institution.

In addition, the regulations authorize ED to grant loan discharge relief to an individual or group of individuals, including individuals who have not sought relief. In particular, ED may automatically discharge loans borrowed to attend schools that have closed on or after November 1, 2013 if a student that did not complete his or her program of study has not subsequently re-enrolled in another Title IV eligible school within three years. In most cases, the regulations entitle ED to seek reimbursement from the institution for any loans discharged under the new procedures. ED’s procedures permit it to draw funds from letters of credit or other collateral posted to ED to secure these types of payments or to offset against future disbursements which would adversely impact cash balances by the amount of the offset.

In the closed school context, ED has engaged in significant student outreach and is actively encouraging and promoting loan discharge through its new Borrower Defense Unit and in a report dated October 28, 2016, ED noted that there are over 4,000 pending applications for loan discharge from students that are unrelated to the collapse of Corinthian Colleges, a former for-profit public company competitor. On January 17, 2017, ED utilized its authority under the borrower defense to repayment rules to automatically discharge student loans for approximately 4,500 students that attended American Career Institute, a former for-profit institution with five campuses in Massachusetts. ED also has pending requests from other outside groups and State Attorneys General for further blanket discharges.

Financial Responsibility. The regulations also make significant modifications to the existing rules governing an institution's required financial responsibility and administrative capability. The regulations specify a number of triggering events that, if they occur after July 1, 2017, would result in an institution not qualifying as financially responsible or administratively capable. Those include, but are not limited to:

- failure to satisfy the 90-10 Rule in any year;
- failure to timely file quarterly or annual financial statements with the SEC;
- a warning from the SEC that it may suspend trading in our stock;
- notification by NASDAQ that our stock is not in compliance with its exchange requirements and/or may be delisted; and
- cohort default rates in excess of 30% for two consecutive years.

Additionally, the regulations include a number of potential financial events that, if they occur on or after July 1, 2017, would cause ED to re-calculate an institution's most recent financial responsibility composite score to determine whether the losses or potential losses from the event cause the composite score to fall below 1.0. The composite score is one measure ED uses to evaluate an institution's financial responsibility using annual financial statements. Triggering events arising on or after July 1, 2017 that can lead to the recalculation of a composite score include, but are not limited to:

- incurring a debt or liability arising from a final judgment in a judicial or administrative proceeding or settlement;
- being sued in an action by a federal or state authority for financial relief that is based on claims related to the making of federal loans or the provision of educational services and the suit has been pending for 120 days;
- being sued in any other lawsuit not referenced above that survives certain procedural steps such as the denial of an institution's motion for summary judgment;
- the institution submitting a teach-out plan to its accreditor, including voluntarily teaching-out a location; and
- programs failing to meet gainful employment regulations.

ED also adopted a number of discretionary triggering events that, if they occur on or after July 1, 2017, it may consider in assessing whether an institution is financially responsible. They include, but are not limited to:

- significant fluctuations in Title IV aid between award years;
- citation from a state licensing or authorizing agency of failing to meet state or agency requirements;
- failure of a to-be-developed financial stress test ED may develop;
- an institution has high annual drop-out rates;
- an institution is placed on show-cause, probation or similar adverse action threatening an institution's accreditation for failure to meet an accreditation standard;
- violation of a provision or requirement in a loan agreement; and
- pending claims for borrower relief.

ED expects to receive a significant volume of claims for borrower relief based on a lawsuit, settlement, judgment or finding from a state or federal administrative proceeding.

All of these triggers introduce considerable uncertainty and provide ED broad discretion regarding periodic determinations of our financial responsibility and associated enhanced financial protection it determines is required. The rules may create significant regulatory pressures on institutions to resolve outstanding inquiries, if possible, prior to the July 1, 2017 effective date to avoid the additional uncertainties of ED's response to future resolutions of disputes, assuming the regulations are not modified. If any of the triggering events materialize, our institutions may be required to post a letter of credit equal to 10% or more of the institution's previous year's annual Title IV disbursements and to provide warnings to prospective and current students that the institution has been required to provide enhanced financial protection to ED.

Additional Disclosures. The regulations establish a new student loan repayment rate measure only for for-profit institutions that assesses the rate at which student loan borrowers are repaying the principal balance of their federal student loans in the years immediately after leaving the institution. Those institutions for which the median borrower has not paid down any principal are required to provide prospective and current students with a disclosure that notes a majority of recent student loan borrowers that attended the institution are not paying down their loans. We will need to rely upon ED for the repayment rates and ED recently acknowledged that a data error had caused it to significantly overstate the repayment rates of a large number of institutions. According to data provided by ED, the repayment rates for each of AIU and CTU would trigger the required warning to students. The disclosure is required to be broadly

disseminated and included prominently in all advertising materials. ED's recent broad promotion and endorsement of income based repayment options for students has adversely impacted the rate that student borrowers pay off their loans, particularly during the earlier period where students may be earning lower entry level wages, which may impact compliance with this new measure.

Arbitration Agreements. The regulations prohibit an institution from incorporating any class action waiver provisions, or any arbitration clauses, in any agreements with students. If an institution's contracts currently contain a pre-dispute arbitration provision or a class waiver, the institution will be required to amend the agreement or provide a specific notice to students, using language provided by ED that explains that those provisions have been changed. This requirement applies to any existing agreements at the time the rule becomes effective, not just for those agreements entered into after July 1, 2017. All of our institutions utilize arbitration agreements within their enrollment agreements as a means to promote efficient, cost effective dispute resolution. If ED does not modify these regulations prior to their effective date and they survive legal challenge, in addition to removing the arbitration clauses for new students enrolling at an institution, we will be required to notify all current students that the existing arbitration clause in their enrollment agreements will no longer be enforced.

ED acknowledges that the burden of the borrower defense to repayment regulations falls on institutions and we expect to experience additional administrative burdens associated with monitoring, reporting and disclosure obligations as well as responding to future claims for loan discharge. We expect the absence of arbitration agreements will attract plaintiff attorneys to the industry,

encourage class action lawsuits and make dispute resolution more difficult and more expensive. We are uncertain what the impact these regulations will have on student enrollment, the volume of claims for loan discharge we may receive or our future financial responsibility as determined by ED.

Financial Responsibility Standards

To participate in Title IV Programs, our institutions must either satisfy standards of financial responsibility prescribed by ED, or post a letter of credit in favor of ED and possibly accept other conditions on its participation in Title IV Programs. Pursuant to the Title IV Program regulations, each eligible higher education institution must, among other things, satisfy a quantitative standard of financial responsibility that is based on a weighted average of three annual tests which assess the financial condition of the institution. The three tests measure primary reserve, equity and net income ratios. The Primary Reserve Ratio is a measure of an institution's financial viability and liquidity. The Equity Ratio is a measure of an institution's capital resources and its ability to borrow. The Net Income Ratio is a measure of an institution's profitability. These tests provide three individual scores that are converted into a single composite score. The maximum composite score is 3.0. If the institution achieves a composite score of at least 1.5, it is considered financially responsible without conditions or additional oversight. A composite score from 1.0 to 1.4 is considered to be in "the zone" of financial responsibility, and a composite score of less than 1.0 is not considered to be financially responsible. If an institution is in "the zone" of financial responsibility, the institution may establish eligibility to continue to participate in Title IV Programs on the following alternative bases:

- Zone Alternative. Under what is referred to as the "zone alternative," an institution may continue to participate in Title IV Programs for up to three years under additional monitoring and reporting procedures but without having to post a letter of credit in favor of ED. These additional monitoring and reporting procedures include being transferred 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) or to the "reimbursement" or Heightened Cash Monitoring 2 ("HCM2") methods of payment. If an institution does not achieve a composite score of at least 1.0 in one of the three subsequent years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the three-year period, the institution must satisfy another alternative standard to continue participating in Title IV Programs.
- Letter of Credit Alternative. An institution that fails to meet one of the standards of financial responsibility, including by having a composite score less than 1.5, may demonstrate financial responsibility by submitting an irrevocable letter of credit to ED in an amount equal to at least 50% of the Title IV Program funds that the institution received during its most recently completed fiscal year.
- Provisional Certification. If an institution fails to meet one of the standards of financial responsibility, including by having a composite score less than 1.5, ED may permit the institution to participate under provisional certification for up to three years. If ED permits an institution to participate under provisional certification, an institution must comply with the requirements of the "zone alternative," including being transferred to the HCM1, HCM2 or "reimbursement" method of payment of Title IV Program funds, and must submit a letter of credit to ED in an amount determined by ED which can range from 10%-100% of the Title IV Program funds that the institution received during its most recently completed fiscal year. If an institution is still not financially responsible at the end of the period of provisional certification, including because it has a composite score of less than 1.0, ED may again permit provisional certification subject to the terms ED determines appropriate.

ED applies its quantitative financial responsibility tests annually based on an institution's audited financial statements and may apply the tests if an institution undergoes a change in control or under other circumstances. ED also may apply the tests to the parent company of our institutions, and to other related entities. Recent profitability declines and the write down of the carrying value of non-financial assets, such as deferred tax assets and goodwill, have negatively impacted our financial responsibility composite scores. Our composite score for the consolidated entity for the year ended December 31, 2015 was 1.7, and our preliminary calculation for the year ended December 31, 2016 is 1.9, which are considered financially responsible without conditions or additional oversight. Future profitability declines as compared to projected amounts, as well as changes in estimates regarding expectations of future taxable income or the timing of future taxable income, could impact our valuation allowance for deferred tax assets or goodwill balances in future periods, which could negatively impact our financial responsibility ratio. If in the future we are required to

satisfy ED’s standards of financial responsibility on an alternative basis, including potentially by posting irrevocable letters of credit, we may not have the capacity to post these letters of credit.

Accreditor and state regulatory requirements also address financial responsibility, and these requirements vary among agencies and also are different from the ED requirements. Any developments relating to our satisfaction of ED’s financial responsibility requirements may lead to additional focus or review by our accreditors or applicable state agencies regarding their respective financial responsibility requirements.

See Item 1A, “Risk Factors – Risks Related to the Highly Regulated Field in Which We Operate – A failure to demonstrate ‘financial responsibility’ or ‘administrative capability’ would have negative impacts on our operations,” for additional information regarding risks relating to the financial responsibility standards.

Return and Refunds of Title IV Program Funds

An institution participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that were disbursed to students who withdrew from educational programs before completing the programs, and must return those funds in a timely manner.

The portion of tuition and fee payments received from students but not yet earned is recorded as deferred tuition revenue and reflected as a current liability on our consolidated balance sheets, as such amounts represent revenue that we expect to earn within the next year. If a student withdraws from one of our institutions prior to the completion of the academic term or program period, we refund the portion of tuition and fees already paid that we are not entitled to retain, pursuant to applicable federal and state law and accrediting agency standards and our refund policy. The amount of funds to be refunded on behalf of a student is calculated based upon the period of time in which the student has attended classes and the amount of tuition and fees paid by the student as of the student's withdrawal date. Such refunds typically result in a reduction to deferred tuition revenue and cash on our consolidated balance sheets, because generally, we do not recognize tuition revenue in our consolidated statements of (loss) income and comprehensive (loss) income until related refund provisions have lapsed.

Institutions are required to return any unearned Title IV funds within 45 days of the date the institution determines that the student has withdrawn. An institution that is found to be in non-compliance with ED refund requirements for either of the last two completed fiscal years must post a letter of credit in favor of ED in an amount equal to 25% of the total Title IV Program returns that were paid or should have been paid by the institution during its most recently completed fiscal year. As of December 31, 2016, we have posted no letters of credit in favor of ED due to non-compliance with ED refund requirements.

Change of Ownership or Control

When an institution undergoes a change of ownership resulting in a change of control, as that term is defined by the state in which it is located, its accrediting agency and ED, it must secure the approval of those agencies to continue to operate and to continue to participate in Title IV Programs. If the institution is unable to re-establish state authorization and accreditation requirements and satisfy other requirements for certification by ED, the institution may lose its authority to operate and its ability to participate in Title IV Programs. An institution whose change of ownership or control is approved by the appropriate authorities is nonetheless provisionally re-certified by ED for a period of up to three years. Transactions or events that constitute a change of control by one or more of the applicable regulatory agencies, including ED, applicable state agencies, and accrediting bodies, include the acquisition of an institution from another entity or significant acquisition or disposition of an institution's equity. It is possible that some of these events may occur without our control. Our failure to obtain, or a delay in obtaining, a required approval of any change in control from ED, applicable state agencies, or accrediting agencies could impair our ability or the ability of the affected institutions to participate in Title IV Programs. If we were to undergo a change of control and a material number of our institutions failed to obtain the required approvals from applicable regulatory agencies in a timely manner, our student population, financial condition, results of operations and cash flows could be materially adversely affected.

When we acquire an institution that is eligible to participate in Title IV Programs, that institution undergoes a change of ownership resulting in a change of control as defined by ED. Each of our acquired institutions has undergone a certification review under our ownership and has been certified to participate in Title IV Programs on a provisional basis, per ED requirements, until such time that ED signs a new program participation agreement with the institution. Currently, none of our institutions are subject to provisional certification status due to ED's change of ownership criteria. The potential adverse effects of a change of control under ED regulations may influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our common stock.

Opening New Institutions, Start-up Campuses and Adding Educational Programs

The Higher Education Act generally requires that for-profit institutions be fully operational for two years before applying to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish a start-up branch campus or location and participate in Title IV Programs at the start-up campus without reference to the two-year requirement if the start-up campus has received all of the necessary state and accrediting agency approvals, has been reported to ED, and meets certain other criteria as defined by ED. Nevertheless, under certain circumstances, a start-up branch campus may also be required to obtain approval from ED to be able to participate in Title IV Programs.

In addition to ED regulations, certain of the state and accrediting agencies with jurisdiction over our institutions have requirements that may affect our ability to open a new institution, open a start-up branch campus or location of one of our existing institutions, or begin offering a new educational program at one of our institutions. If we establish a new institution, add a new branch start-up campus, or expand program offerings at any of our institutions without obtaining the required approvals, we would likely be liable for repayment of Title IV Program funds provided to students at that institution or branch campus or enrolled in that educational program, and we could also be subject to sanctions. Also, if we are unable to obtain the approvals from ED, applicable state regulatory agencies, and accrediting agencies for any new institutions, branch campuses, or program offerings where such approvals are required,

or to obtain such approvals in a timely manner, our ability to grow our business would be impaired and our financial condition, results of operations and cash flows could be materially adversely affected.

Administrative Capability

ED regulations specify extensive criteria that an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV Programs. These criteria relate to, among other things, institutional staffing, operational standards such as procedures for disbursing and safeguarding Title IV Program funds, timely submission of accurate reports to ED and various other procedural matters. If an institution fails to satisfy any of ED’s criteria for administrative capability, ED may require the repayment of Title IV Program funds disbursed by the institution, place the institution on provisional certification status, require the institution to receive Title IV Program funds under another funding arrangement, impose fines or limit or terminate the participation of the institution in Title IV Programs.

Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments

An institution participating in Title IV Programs cannot provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or Title IV financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance. New regulations issued in October 2010 which became effective July 1, 2011 rescinded previously issued ED guidance and “safe harbors” relied upon by higher education institutions in making decisions how they managed, compensated and promoted individuals engaged in student recruiting and the awarding of financial aid and their supervisors. The elimination of these “safe harbor” protections and guidance required us to terminate certain compensation payments to our affected employees and to implement changes in contractual and other arrangements with third parties to change structures formerly allowed under ED rules, and has had an impact on our ability to compensate, recruit, retain and motivate affected admissions and other affected employees as well as on our business arrangements with third-party lead generators and other marketing vendors.

Further, ED provided very limited published guidance regarding this rule and does not establish clear criteria for compliance for many circumstances. If ED determined that an institution’s compensation practices violated these standards, ED could subject the institution to monetary fines, penalties or other sanctions.

Substantial Misrepresentation

The Higher Education Act prohibits an institution participating in Title IV Programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges, graduate employability or its relationship with ED. Under ED’s rules, a "misrepresentation" is any statement (made in writing, visually, orally or otherwise) made by the institution, any of its representatives or a third party that provides educational programs, marketing, advertising, recruiting, or admissions services to the institution, that is false, erroneous or has the likelihood or tendency to deceive, and a "substantial misrepresentation" is any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person’s detriment. Considering the broad definition of “substantial misrepresentation,” it is possible that, despite our training efforts and compliance programs, our institutions' employees or service providers may make statements that could be construed as substantial misrepresentations. In addition, ED’s gainful employment regulation requires the disclosure of select student outcome metrics and includes disclosure of a number of new metrics on institutional websites and during enrollment to all new students. Errors or omissions in these metrics may be used by ED as the basis for a finding of “substantial misrepresentation.” If ED determines that one of our institutions has engaged in substantial misrepresentation, ED may revoke the institution’s program participation agreement, deny applications from the institution for approval of new programs or locations or other matters, or initiate proceedings under its borrower defense to repayment regulations to fine the institution or limit, suspend, or terminate its eligibility to participate in Title IV Programs; the institution could also be exposed to increased risk of action under the Federal False Claims

Act.

OTHER INFORMATION

Our website address is www.careered.com. We make available within the “Investor Relations” portion of our website under the caption “Financial Information,” free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, including any amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (“SEC”). Materials that we file or furnish to the SEC may also be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information that we file electronically with the SEC. Information contained on our website is expressly not incorporated by reference into this Form 10-K.

Item 1A. RISK FACTORS
Risks Related to the Highly Regulated Field in Which We Operate

Increased scrutiny of the for-profit postsecondary education sector by Congress and various state and federal governmental agencies have resulted in adverse publicity and increased regulatory burdens and costs, and this trend may continue.

We and other for-profit postsecondary education providers have been subject to increased regulatory scrutiny and litigation in recent years. State attorneys general, ED, members and committees of Congress, the CFPB, the FTC, various advocacy and lobbying groups and other parties have increasingly focused on various aspects of the education industry, including accreditation matters, student debt, student recruiting, student success and outcomes and other matters. This increased scrutiny has led to negative publicity about these topics and we expect this to continue.

Congress, ED and certain states have adopted and proposed legislation directed at the for-profit education sector, and the reauthorization of the Higher Education Act is pending. The increased scrutiny of the for-profit postsecondary education sector and the focus on U.S. debt levels and deficit spending could lead to significant regulatory changes in connection with the upcoming reauthorization of the Higher Education Act or otherwise, and many of these changes may be adverse to postsecondary institutions generally or for-profit institutions specifically. We believe ED has adopted selective enforcement policies for many of its rules and regulations and has also encouraged accreditors and other regulators to selectively target for-profit colleges for additional scrutiny and heightened regulatory burdens. Various groups continue to actively lobby state and federal regulators to adopt stringent rules targeting for-profit institutions and promoting sweeping student loan discharge. Further, these circumstances could also lead to additional federal or other investigations of the sector and third-party litigation alleging statutory violations, regulatory infractions or common law causes of action.

The further adoption of laws, regulations or ED administrative processes that: limit our institutions' ability to attract new students, limit our institutions' ability to provide interested students with financial aid awards, reduce funding for federal student financial aid programs, make it easy for students to receive loan discharges that are charged back to the institution they attended, or limit the ability of our institutions or students to participate in these programs could have a material adverse effect on our student population, revenue and cash balances. Legislative action may also increase our administrative costs and require us to modify our practices or strategies in order for our institutions to comply with applicable requirements.

If our institutions fail to comply with the extensive regulatory requirements applicable to our business, we could incur financial penalties, restrictions on our operations, loss of federal and state financial aid funding for our students, or loss of our authorization to operate our institutions.

We are subject to extensive federal and state regulation as a provider of postsecondary education. The applicable regulatory requirements cover virtually all phases of the operations of our institutions, including educational program offerings, facilities, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, financial aid to students, acquisitions or openings of new institutions, additions of new educational programs, closure or relocation of existing locations and changes in corporate structure and ownership. ED is our primary federal regulator pursuant to the Higher Education Act.

A significant portion of our U.S.-based students rely on Title IV Programs, and we derive a substantial portion of our revenue and cash flows from Title IV Programs. For example, for the fiscal year ended December 31, 2016, approximately 87% of our U.S.-based students who were in a program of study at any date during that year participated in Title IV Programs, which resulted in Title IV Program cash receipts recorded by the Company of approximately $510 million.

All of our institutions participate in Title IV Programs and are subject to extensive regulation by ED, various state agencies and accrediting commissions. To participate in Title IV Programs, an institution must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by ED, and be certified by ED as an eligible institution. Most ED requirements are applied on an institutional basis, with an institution defined by ED as a main campus and any of its branch campuses or additional locations. Each institution is assigned an identification number known as an OPEID, or Office of Postsecondary Education Identification number, with each institution's branches and other locations assigned to the institution's OPEID.

The regulations, standards and policies of our regulators change frequently and are subject to interpretation, particularly where they are crafted for traditional, academic term-based institutions rather than our non-term academic delivery model. Changes in, or new interpretations of, applicable laws, regulations or standards could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV Programs, or costs of doing business. We cannot predict with certainty how all of the requirements applied by our regulators will be interpreted or whether our institutions will be able to comply with these requirements in the future.

If we are found to have violated any applicable regulations, standards or policies, we may be subject to the following sanctions, among others, imposed by any one or more of the relevant regulatory agencies or other government bodies:

- imposition of monetary fines or penalties, including imposition of a letter of credit requirement;
- repayment of funds received under Title IV or other federal programs or state financial aid programs;
- restrictions on, or termination of, our institutions' eligibility to participate in Title IV or other federal programs or state financial aid programs;
- limits on, or termination of, our institutions' operations or ability to grant degrees, diplomas and certificates;
- restrictions on, or revocation of, our institutions' accreditations;
- limitations on our ability to open new institutions or offer new programs;
- costly investigations, litigation or other adversarial proceedings; and
- civil or criminal penalties being levied against us or our institutions.

In addition, findings or allegations of noncompliance may subject us to qui tam lawsuits under the Federal False Claims Act, under which private plaintiffs seek to enforce remedies on behalf of the U.S. and, if successful, are entitled to recover their costs and to receive a portion of any amounts recovered by the U.S. in the lawsuit. We may also be subject to other types of lawsuits or claims by third parties. The costs of these proceedings may be significant and we may not have sufficient resources to fund any material adverse outcomes.

Any of the penalties, injunctions, restrictions, lawsuits or other forms of censure listed above could have a material adverse effect on our business, financial condition, results of operations and cash flows. If we lose Title IV Program eligibility, we would experience a dramatic decline in revenue and we would be unable to continue our business as it currently is conducted.

Additional ED or other rulemaking could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

In addition to the new “borrower defense to repayment” and gainful employment regulations discussed in the risk factors below, ED has promulgated a substantial number of new regulations in recent years that impact our business, including but not limited to compensation rules for persons engaged in certain aspects of admissions and financial aid, state authorization, determination of attendance and definitions of a “credit hour” and a “substantial misrepresentation” which became effective on July 1, 2011. These new regulations and subsequent regulations have had significant impacts on our business, requiring a large number of reporting and operational changes and resulting in changes to and elimination of certain educational programs.

Future regulatory actions by ED or other agencies that regulate our institutions are likely to occur and to have significant impacts on our business, require us to change our business practices and incur costs of compliance and of developing and implementing changes in operations, as has been the case with past regulatory changes. As mentioned above, the increased scrutiny of the for-profit postsecondary education sector and the ongoing policy differences in Congress regarding spending levels could lead to significant regulatory changes in connection with the upcoming reauthorization of the Higher Education Act, and many of these changes may be adverse to postsecondary institutions generally or for-profit institutions specifically.

We cannot predict with certainty the ultimate combined impact of the regulatory changes which have occurred over the past few years, nor can we predict the effect of future legislative or regulatory action by federal, state or other agencies regulating our education programs or other aspects of our operations, how any resulting regulations will be interpreted or whether we and our institutions will be able to comply with these requirements in the future. Any such actions by legislative or regulatory bodies that affect our programs and operations could have a material adverse effect on our student population and our institutions, including the need to cease offering a number of programs.

ED’s gainful employment regulation may limit the programs we can offer students and increase our cost of operations.

Under the Higher Education Act, for-profit institutions are generally eligible to participate in Title IV Programs only in respect of educational programs that “prepare students for gainful employment in a recognized occupation.” On October 30, 2014, ED published a new complex final regulation to define “gainful employment,” a term used in the

Higher Education Act which historically has not been defined by Congress or ED. In addition to significant new disclosure requirements, the new regulation establishes debt to earnings ratio thresholds a program's students must achieve for the program to remain eligible to participate in Title IV Programs. See Item 1, "Business—Student Financial Aid and Related Federal Regulation—Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations—Gainful Employment," for more information about the new gainful employment regulation.

On October 20, 2016, ED provided our institutions with their first program level draft debt-to-earnings rates under the new gainful employment regulation and in January 2017, ED finalized these rates. AIU had two, and CTU had three, of its continuing programs in the "zone" for meeting the gainful employment standard. Each university also had one program that failed to meet the

standard; however, both of these programs have ceased enrolling new students. The most significant of the continuing programs within our University Group that are in the zone are the Criminal Justice programs at AIU and CTU, which represent approximately 18% of University Group total enrollments at December 31, 2016. We are working to launch new or modified programs or specializations that we believe are likely to have positive gainful employment outcomes. Our efforts to mitigate the impact of the regulation may not be successful or result in compliance with the new regulation. In particular, the continuing eligibility of our educational programs for Title IV Programs is at risk due to factors beyond our control, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income, the Affordable Care Act's incentive for businesses to reduce employee work schedules, pending immigration reform proposals and labor supply impacts on starting wages generally, changes in the percentage of our former students who are current in repayment of their student loans, and other factors. The exposure to these external factors could reduce our ability to continue certain types of programs for which there is market demand, and therefore would impact our ability to maintain or grow our business.

In addition, the disclosure and reporting requirements of the new regulation increase our costs of operations and could adversely impact student enrollment and retention and the reputation of our institutions. If we are required to include a warning notice for any of our programs based on the debt-to-earnings rate, enrollment in those programs may decline materially.

If a particular program ceased to be eligible for Title IV Programs, in most cases it would not be practical to continue offering that program under our current business model, which could reduce our enrollment and have a material adverse effect on our cash flows, results of operations and financial condition. Further, if any of our programs require a warning notice or cease to be eligible for Title IV student financial aid, including programs in our Transitional Group and Culinary Arts segments which are currently being taught out, we may incur substantial cost and expense, and lost revenue, in providing appropriate assistance to the affected students to complete their academic programs or transition to other programs inside or outside of our universities.

Recently adopted "borrower defense to repayment" regulations may subject us to significant repayment liability to ED for discharged federal student loans, posting of substantial letters of credit and other requirements that could have a material adverse effect on us.

On October 28, 2016, ED issued complex, significant new regulations that cover multiple issues including the processes and standards for the discharge of student loans, which are commonly referred to as "borrower defense to repayment." The regulations set forth categories of borrower defenses that could be asserted by students with student loans disbursed on or after July 1, 2017 and also provide that ED may automatically discharge loans borrowed to attend schools that have closed on or after November 1, 2013 if a student that did not complete his or her program of study has not subsequently re-enrolled in another Title IV eligible institution within three years. In most cases, the regulations entitle ED to seek reimbursement from the institution for any loans discharged under the new standards. See Item 1, "Business – Student Financial Aid and Related Federal Regulation - Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations – Borrower Defense to Repayment," for an overview of the new regulations.

We have in the past had claims made against us that if successfully made in the future could provide a basis for borrower claims for discharge of student loans. See, for example, matters described in Note 11 "Contingencies" to our consolidated financial statements. We are also in the process of teaching out campuses within our Transitional Group and Culinary Arts segments. Students enrolled at these campuses have been afforded the reasonable opportunity to complete their program of study prior to the final teach-out date, but we cannot control the number of students who do not complete their program of study and therefore may seek discharge of their federal student loans pursuant to the closed school provisions of the borrower defense to repayment regulations. ED has engaged in significant student outreach and is actively encouraging and promoting loan discharge through its new Borrower Defense Unit and in a report dated October 28, 2016, ED noted that there are over 4,000 pending applications for loan discharge from

students that are unrelated to the collapse of Corinthian Colleges, a former for-profit public company competitor. On January 17, 2017, ED utilized its authority under the borrower defense to repayment regulations to automatically discharge student loans for approximately 4,500 students that attended American Career Institute, a former for-profit institution with five campuses in Massachusetts. ED also has pending requests from other outside groups and State Attorney's General for further blanket discharges. Our repayment liability to ED for discharged student loans could have a material adverse effect on our financial condition, results of operations and cash flows.

The new regulations also make significant modifications to the existing rules governing an institution's required financial responsibility and administrative capability. The regulations specify a number of triggering events that introduce considerable uncertainty and provide ED broad discretion regarding periodic determinations of our financial responsibility and associated enhanced financial protection it determines is required. We have in the past been in circumstances that if they occur in the future would constitute a triggering event under the new regulations. If any of the triggering events materialize, our institutions may be required to post a letter of credit equal to 10% or more of the institution's previous year's annual Title IV disbursements. If in the future we are required to post a letter of credit pursuant to these new regulations, we may not have the capacity to do so. Even if we are able to post any required letter of credit, doing so may impact our ability to make investments in our business which could have a material adverse effect on our future growth prospects, financial condition, results of operations and cash flows.

If we must post a letter of credit under the new regulations, we must also provide warnings to prospective and current students that the institution has been required to provide enhanced financial protection to ED. In addition, the regulations establish a new student loan repayment rate measure only for for-profit institutions that assesses the rate at which student loan borrowers are repaying the principal balance of their federal student loans immediately after leaving the institution. Those institutions for which the median borrower has not paid down any principal are required to provide prospective and current students with a disclosure that notes a majority of recent student loan borrowers that attended the institution are not paying down their loans. The disclosure is required to be broadly disseminated and included prominently in all advertising materials. ED's recent broad promotion and endorsement of income based repayment options for students has adversely impacted the rate that student borrowers pay off their loans, particularly during the earlier period where students may be earning lower entry level wages, which may impact compliance with this new measure. Any required warnings to prospective and current students could have a material adverse effect on our student enrollments.

An additional aspect of the regulations is that they prohibit an institution from incorporating any class action waiver provisions, or any arbitration clauses, in any agreements with students, including any existing agreements at the time the rule becomes effective on July 1, 2017. This provision is likely to increase our future litigation costs, and such costs may be material.

We expect to experience additional administrative burdens associated with monitoring, reporting and disclosure obligations in connection with the new regulations, as well as responding to future claims for loan discharge, and these burdens may be material. Some aspects of the new regulations are unclear and many involve significant discretion by ED. Further, certain procedural aspects are pending future rulemaking by ED. The content of additional rulemaking and future interpretations of the regulations by ED are unknown and could have a material negative impact on the Company.

We cannot predict the impact the defense to repayment regulations will have on student enrollment, the volume of future claims for loan discharge, or our future financial responsibility as determined by ED, all of which could be materially adverse.

A failure to demonstrate "financial responsibility" or "administrative capability" would have negative impacts on our operations.

All higher education institutions participating in Title IV Programs must, among other things, satisfy financial and administrative standards. Failure to meet these standards will subject an institution to additional monitoring and reporting procedures, the costs of which may be significant; alterations in the timing and process for receipt of cash pursuant to Title IV Programs; a requirement to submit an irrevocable letter of credit to ED in an amount equal to 10-100% of the Title IV Program funds that the institution received during its most recently completed fiscal year; or provisional certification for up to three years; depending on the level of compliance with the standards and ED's discretion. See Item 1, "Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations," for more information about the standards of financial responsibility and administrative capability and the alternative ways an institution may establish eligibility to continue to participate in Title IV Programs.

Recent profitability declines and the write down of the carrying value of non-financial assets, such as deferred tax assets and goodwill, have negatively impacted our financial responsibility scores over recent years. In contrast, our financial responsibility ratio for 2015 benefited from the partial reversal during the year ended December 31, 2015 of the valuation allowance recorded against our deferred tax assets. Future profitability declines as compared to projected amounts, adoption of proposed reductions in the corporate tax rate, as well as changes in estimates regarding expectations of future taxable income or the timing of future taxable income, could impact our valuation allowance for deferred tax assets or goodwill balances in future periods, which could negatively impact our financial responsibility ratio. Further, there is some uncertainty regarding ED's treatment of certain components of the financial responsibility

composite score. The Company may not continue to be financially responsible as defined by ED. For example, our plans to reduce costs through closure of campuses may negatively impact our composite score in the short term and, as discussed in the “borrower defense to repayment” risk factor above, recent modifications to the existing rules governing an institution’s required financial responsibility and administrative capacity specify a number of triggering events that introduce considerable uncertainty and provide ED broad discretion regarding periodic determinations of our financial responsibility. We believe that recent developments in the for-profit postsecondary education industry have negatively impacted the availability and cost of capital for companies in the industry, which may impact our ability to take actions to, or the terms of any transaction undertaken to, benefit our future compliance with ED’s financial responsibility standards. If in the future we are required to satisfy ED's standards of financial responsibility on an alternative basis, including potentially by posting irrevocable letters of credit, we may not have the capacity to post these letters of credit.

Accreditor and state regulatory requirements also address financial responsibility, and these requirements vary among agencies and also are different from the ED requirements. Any developments relating to our satisfaction of ED's financial responsibility requirements may lead to additional focus or review by our accreditors or applicable state agencies regarding their respective financial responsibility requirements.

If our institutions fail to maintain financial responsibility or administrative capability, they could lose their eligibility to participate in Title IV Programs, have that eligibility adversely conditioned or be subject to similar negative consequences under accreditor and state regulatory requirements, which would have a material adverse effect on our business. In particular, limitations on, or termination of, participation in Title IV Programs as a result of the failure to demonstrate financial responsibility or administrative

capability would limit students' access to Title IV Program funds, which would materially and adversely reduce the enrollments and revenues of our institutions.

Our institutions could lose their eligibility to participate in federal student financial aid programs if the percentage of their revenues derived from those programs is too high.

Any of our institutions or OPEIDs may lose eligibility to participate in Title IV Programs if, on modified cash basis accounting, the percentage of the cash receipts derived from Title IV Programs for two consecutive fiscal years is greater than 90%. Under the 90-10 Rule, an OPEID that derives more than 90% of its cash receipts from Title IV sources for a fiscal year will be placed on provisional participation status for its next two fiscal years. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students. In addition, if the OPEID violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility.

Several factors such as the increase in Title IV Program aid availability and budget-related reductions in state grant and workforce training programs and other alternative funding sources have adversely affected our institutions' 90-10 Rule percentages in recent years, and we expect this negative impact to continue. We have implemented various measures intended to reduce the percentage of our institution's cash basis revenue attributable to Title IV Program funds, but they have had only limited impact to date and they may not be adequate to prevent our institutions' 90-10 Rule percentages from exceeding 90% in the future. One such measure is delaying the disbursement and subsequent receipt of Title IV Program funds. Another is adjusting tuition, which could adversely affect our enrollment and our cohort default rates. The ability of our institutions to maintain 90-10 rates below 90% will depend on the impact of future changes in our enrollment mix and regulatory and other factors outside of our control, including any reduction in government assistance for military personnel, including veterans, or changes in the treatment of such funding for purposes of the 90-10 rate calculation. In addition, there is a lack of clarity regarding some of the technical aspects of the calculation methodology under the 90-10 Rule, which may lead to regulatory action or investigations by ED. Changes in, or new interpretations of, the calculation methodology or other industry practices under the 90-10 Rule could further significantly impact our compliance with the 90-10 Rule, and any review or investigation by ED involving us could require a significant amount of resources.

ED has broad discretion to impose additional sanctions on institutions that fail the 90-10 Rule limit, but there is only limited precedent available to predict what those additional sanctions might be in the future, particularly in the current regulatory environment. ED could specify a wide range of additional conditions as part of the provisional certification and the institutions' continued participation in Title IV Programs. These conditions may include, among other things, restrictions on the total amount of Title IV Program funds that may be distributed to students attending the institutions; restrictions on programmatic and geographic expansion; requirements to obtain and post letters of credit; and additional reporting requirements to include additional interim financial or enrollment reporting.

See Item 1, “Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations - ‘90-10 Rule,’” for more information about the 90-10 Rule and the measures we have implemented to improve our compliance.

If any of our institutions lose eligibility to participate in Title IV Programs due to violation of the 90-10 Rule, such institutions' operating and financial results would be materially adversely affected. Efforts to reduce the 90-10 Rule percentage for our institutions have and may in the future involve taking measures that involve interpretations of the 90-10 Rule that are without clear precedent, reduce our revenue or increase our operating expenses (or all of the foregoing, in each case perhaps significantly). If the 90-10 Rule is not changed to provide relief for for-profit institutions, we may be required to make structural changes to our business to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make more

difficult our ability to comply with other important regulatory requirements, such as the cohort default rate regulations.

Our institutions could lose their eligibility to participate in federal student financial aid programs or have other limitations placed upon them if their student loan cohort default rates are greater than the standards set by ED.

To remain eligible to participate in Title IV Programs, our institutions must maintain student loan cohort default rates below specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The applicable cohort default rate for each cohort is now the percentage of the students in the cohort who default on their student loans prior to the end of the two following federal fiscal years, which represents a three-year measuring period. If an educational institution's cohort default rate exceeds the applicable standards, it may be required to delay for 30 days the release of the first disbursement of U.S. federal student loan proceeds to first time borrowers, establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate, be subject to provisional certification imposing various additional requirements for participating in Title IV Programs or, depending on the duration or magnitude of the compliance failure, cease participation in Title IV Programs.

We believe maintaining cohort default rates in compliance with the standards will remain challenging due to the economic climate and changes in the manner in which student loans are serviced. All federal student loans have migrated to the Federal Direct Loan Program under which the federal government lends directly to students. This could adversely impact loan repayment rates and our institutions' cohort default rates if the federal government is not effective in promoting timely repayment of federal student loans. The Consumer Financial Protection Bureau filed a lawsuit in January 2017 accusing ED's largest student loan servicer, Navient, of a number of infractions and failings with respect to the servicing of student loans and counseling of student loan borrowers. It is unclear what impact the allegations, if true, may have on future cohort default rates.

See Item 1, "Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations – Student Loan Default Rates," for more information about cohort default rates, ED's standards and penalties applicable thereto as well as the Company's rates for its institutions.

If our student loan default rates approach applicable limits, we may be required to increase our efforts and resources dedicated to improving these default rates. In addition, because there is a lag between the funding of a student loan and a default thereunder, many of the borrowers who are in default or at risk of default are former students with whom we may have only limited contact. Accordingly, we may not be able to effectively improve our default rates or improve them in a timely manner to meet the requirements for continued participation in Title IV Programs if we experience an increase in our student loan default rates.

If any of our institutions were to lose eligibility to participate in Title IV Programs due to student loan default rates being higher than ED's thresholds and we could not arrange for adequate alternative student financing sources, we would most likely have to close those institutions, which could have a material adverse effect on our total student enrollment, financial condition, results of operations and cash flows.

If ED denies, or significantly conditions, recertification of any of our institutions to participate in Title IV Programs, that institution could not conduct its business as it is currently conducted.

Under the provisions of the Higher Education Act, an institution must apply to ED for continued certification to participate in Title IV Programs at least every six years or when it undergoes a change of control. Each institution is assigned an identification number by ED known as an OPEID, or Office of Postsecondary Education Identification number, with each institution's branches and additional locations assigned to the main campus' OPEID. All of our institutions, including AIU and CTU, are currently operating on a provisional program participation agreement. AIU and CTU each have a program participation agreement that expired on December 31, 2016. Because they have submitted necessary documentation for recertification, eligibility of these institutions continues on a month-to-month basis until ED issues its decision on the applications. Generally, the recertification process includes a review by ED of an institution's educational programs and locations, administrative capability, financial responsibility and other oversight categories. It is not unusual to be continued on a month-to-month basis until ED completes its review; however, it can be challenging to start new programs at institutions on provisional certification or currently in recertification, which could negatively impact our ability to start new programs. Any new program participation agreements for AIU and CTU may contain additional conditions on those institutions' participation in Title IV Programs, such as additional disclosure obligations to new students or reporting of additional information to ED on regular intervals.

In addition, all of our ACICS accredited schools, which are in teach-out, are currently on provisional certification expiring June 12, 2018 (or until their earlier closure date) in connection with a loss of recognition of ACICS as an accrediting agency by ED. These ACICS-related provisional program participation agreements subject us to additional reporting requirements. We believe that all of our ACICS-accredited schools will complete their teach-out before expiration of their current provisional program participation agreements; however, any students who have not completed their program prior to that time would potentially be impacted by a loss of Title IV Program eligibility.

The provisional program participation agreements distributed to our institutions in April 2016 provided that they were provisional because of matters relating to the Assurance of Discontinuance the Company entered into in August 2013 with the New York Attorney General (see Item 1, "Business—Accreditation and Jurisdictional Authorizations—Additional State Regulatory Matters"), inquiries from various state attorneys general (see Note 11 "Contingencies—State Investigations" to our consolidated financial statements) and ED's ongoing review of the Company's compliance with the Student Right to Know Act (see Item 1, "Business—Student Financial Aid and Related Federal Regulation—Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations"). In addition, ED is conducting an inquiry concerning possible violations of ED misrepresentation regulations (see Note 11 "Contingencies – Regulatory Matters – ED Inquiry and HCM1 Status" to our consolidated financial statements). It is uncertain what impact, if any, these matters and the existing provisional certification status of AIU and CTU may have on their recertification process.

If ED finds that any of our institutions do not fully satisfy all required eligibility and certification standards, ED could limit, suspend or terminate the institution's participation in Title IV Programs. Recently, we have seen ED leverage the more limited due process rights available to institutions during the recertification process to assert infractions and then deny recertification applications. In these instances, institutions have been left with limited recourse and generally were forced to close. Continued Title IV program eligibility is critical to the operation of our business. If our institutions become ineligible to participate in Title IV Programs, or have

that participation significantly conditioned, we could not conduct our business as it is currently conducted and it would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Government and regulatory agencies and third parties may conduct compliance reviews and audits or bring actions against us that could result in monetary liabilities, injunctions, loss of eligibility for Title IV Programs or other adverse outcomes.

Because we operate in a highly regulated industry, we are subject to compliance reviews and audits as well as claims of noncompliance and lawsuits by government agencies, regulatory agencies and third parties. In this regard, we have several pending audits, inquiries and claims against us, including ED's Office of Inspector General audit of CTU and inquiries from ED and various other regulators. See Note 11 "Contingencies" to our consolidated financial statements and Item I, "Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations" for discussion of certain of these pending matters.

It is possible for one or more of our employees to engage in non-compliant behavior or make statements that violate some aspect of the extensive regulations governing our institutions and business despite our compliance programs. We have undertaken significant personnel and cost reductions to stabilize our business which could create resource constraints that may increase the likelihood of a compliance failure. From time to time, we identify compliance deficiencies that we must address and, where appropriate, report such deficiencies to ED. Such reporting, even in regard to a minor or inadvertent compliance issue, could result in a more significant compliance review by ED or even a full recertification review, which may require the expenditure of substantial administrative time and resources to address.

If the result of any pending or future proceeding is unfavorable to us, we may be required to pay money damages or be subject to fines, limitations, loss of Title IV funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those actions. Claims and lawsuits brought against us may damage our reputation or adversely affect our stock price, even if such actions are eventually determined to be without merit.

Any failure to comply with state laws and regulatory requirements, or new state legislative or regulatory initiatives affecting our institutions, could have a material adverse effect on our total student enrollment, results of operations, financial condition and cash flows.

Our institutions are subject to regulation in the states where our physical campuses are located, and our online institutions are also subject to regulation in certain other states in which they enroll and/or recruit students. State laws establish standards for, among other things, student instruction, qualifications of faculty, location and nature of facilities and financial policies. State laws and regulations may limit our campuses' ability to operate or to award degrees or diplomas or offer new degree programs. Moreover, under the Higher Education Act, approval by such agencies is necessary to maintain eligibility to participate in Title IV Programs.

State legislatures often consider legislation affecting regulation of postsecondary educational institutions. Enactment of this legislation and ensuing regulations, or changes in interpretation of existing regulations, may impose substantial costs on our institutions and require them to modify their operations in order to comply with the new regulations. State attorneys general have increasingly become active in their review and oversight of postsecondary education institutions, through investigative inquiries and regulation.

If we are unable to comply with current or future state licensing, authorization or other requirements, or determine that we are unable to cost effectively comply with new or changed requirements, we could lose enrollments, eligibility to participate in Title IV Programs and revenues in any affected states, which could materially affect our result of operations and our growth opportunities. Loss of authorization in one or more states could increase the likelihood of

additional scrutiny and potential loss of authority in other states, which would further impact our business.

If one or more of our institutions fails to maintain institutional accreditation, if one or more of our accrediting agencies loses recognition by ED, or if certain of our programs cannot obtain or maintain programmatic accreditation, our student enrollments would diminish and our business would suffer.

Institutional Accreditation. In the U.S., accrediting agencies periodically review the academic quality of an institution's instructional programs and its administrative and financial operations to ensure that the institution has the resources to perform its educational mission. ED relies on accrediting agencies to assess whether an institution's educational programs qualify the institution to participate in Title IV Programs. See Item 1, “Business – Accreditation and Jurisdictional Authorizations – Institutional Accreditation.”

The failure to comply with accreditation standards will subject an institution to additional oversight and reporting requirements, accreditation proceedings such as a show-cause directive, an action to defer or deny action related to an institution's application for a new grant of accreditation or an action to suspend an institution's accreditation or a program's approval. If our institutions or programs are subject to accreditation actions or are placed on probationary accreditation status, we may experience additional adverse publicity, impaired ability to attract and retain students and substantial expense to obtain unqualified accreditation status.

The inability to obtain reaccreditation following periodic reviews or any final loss of institutional accreditation after exhaustion of the administrative agency processes would result in a loss of Title IV Program funds for the affected institution and its students. Such events and any related claims brought against us could have a material adverse impact on our business, reputation, financial condition, results of operations and cash flows.

Programmatic Accreditation. Many states and professional associations require professional programs to be accredited. While programmatic accreditation is not a sufficient basis to qualify for institutional Title IV Program certification, programmatic accreditation may improve employment opportunities for program graduates in their chosen field. Those of our programs that do not have such programmatic accreditation, where available, or fail to maintain such accreditation, may experience adverse publicity, declining enrollments, litigation or other claims from students or suffer other adverse impacts, which could result in it being impractical for us to continue offering such programs.

ED Recognition of Accrediting Agencies. Our participation in Title IV Programs is dependent on ED continuing to recognize the accrediting agencies that accredit our colleges and universities. The standards and practices of these agencies have become a focus of attention by the Office of Inspector General and ED over recent years, and ACICS, the accreditor of many of our Transitional Group and Culinary Arts campuses which are in teach-out, ceased to be an accrediting agency recognized by ED in 2016. This focus may make the accreditation review process longer and potentially more challenging for all of our remaining institutions when they undergo their normal accreditation review processes. It may also be making the process by which ED evaluates and recognizes accreditors as appropriate Title IV gatekeepers similarly longer and more challenging. If HLC, the accreditor of the institutions in our University Group, loses recognition by ED as an approved Title IV accreditor, the institutions it accredits would have only 18 months to become accredited by another accreditor in order to maintain Title IV eligibility. If an institution loses accreditation, or its accreditor loses ED recognition, it could experience increased operational costs and reduced enrollments, and each has the potential to materially adversely affect our business and results of operations.

We need timely approval by applicable regulatory agencies to offer new programs or make substantive changes to existing programs.

We have been facing a period of extremely heightened regulatory scrutiny as discussed in other risk factors above. We believe regulatory agencies are generally seeing significant increases in the volume of requests as a result of the industry adjusting to the significant volume of new regulations and challenging economic circumstances which have affected students and institutions. Regulatory capacity constraints have resulted in delays to various approvals our institutions are requesting. To establish a new educational program or substantive changes to existing programs, we are required to obtain the appropriate approvals from ED and applicable state and accrediting regulatory agencies, which may be conditioned, delayed or denied in a manner that could significantly affect our strategic plans and future growth. Approval by these regulatory agencies may be negatively impacted due to regulatory inquiries or reviews and any adverse publicity relating to such matters or the industry generally. Also, the threat of any adverse action by ED regarding its recognition of any of our accrediting agencies may impact the timing of our accrediting agencies' review and decision whether to grant approval of our various requests, in particular in areas of current focus by ED.

Risks Related to Our Business

Our financial performance depends on the level of student enrollment in our institutions.

We have experienced reduced new student enrollments in recent years. Stagnant wage growth and heightened financial worries could continue to affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. An improving economy and improving job prospects may lead prospective students to choose to work rather than to pursue postsecondary education. Our enrollments could suffer from any of these circumstances.

Enrollment of students at our institutions is impacted by many of the regulatory risks discussed above and business risks discussed below, many of which are beyond our control. If the costs of Title IV loans increase and if availability of alternate student financial aid decreases, students may decide not to enroll in a postsecondary institution, including our institutions. We could experience decreasing enrollments in our institutions due to changing demographic trends in family size, overall declines in enrollment in postsecondary institutions, job growth in fields unrelated to our core disciplines, immigration and visa laws, or other societal factors.

Reduced enrollments at our institutions, for any of the reasons mentioned or otherwise, generally reduces our profitability and is likely to have a negative impact on our business, results of operation, financial condition and cash flows, which, depending on the level of the decline, could be material.

If we are unable to successfully resolve pending or future litigation and regulatory and governmental inquiries involving us, or face increased regulatory actions or litigation, our financial condition and results of operations could be adversely affected.

We and certain of our current and former directors and executive officers have been named as defendants in various lawsuits, investigations and claims covering a range of matters, including, but not limited to, violations of the federal securities laws, breaches

of fiduciary duty and claims made by current and former students and employees of our institutions. Current claims include qui tam actions filed in federal court by individual plaintiffs on behalf of themselves and the federal government alleging that we submitted false claims or statements to ED in violation of the False Claims Act. Qui tam actions are filed under seal, and remain under seal until the government decides whether it will intervene in the case. If the government elects to intervene in an action, it assumes primary control of that matter; if the government elects not to intervene, then individual plaintiffs may continue the litigation at their own expense on behalf of the government. See Note 11 "Contingencies" to our consolidated financial statements for discussion of these and certain other current matters. Additional actions may arise in the future.

We and our institutions also are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance and litigation by ED, federal and state regulatory agencies, accrediting agencies, state attorney general offices, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards, consumer protection and other legal and regulatory requirements applicable to us or our institutions. For example, we have received inquiries from attorneys general in 21 states plus the District of Columbia, including a collective inquiry by 18 attorneys general relating to potential non-compliance with applicable state laws and regulations by certain of our institutions. See Note 11 "Contingencies" to our consolidated financial statements and Item 1, “Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations” for additional discussion of these and certain other current matters. If the results of any such audits, reviews, inquiries, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, undertakings, additional oversight and reporting, or other civil or criminal penalties.

Even if we maintain compliance with applicable governmental and accrediting body regulations, increased regulatory scrutiny or adverse publicity arising from allegations of non-compliance may increase our costs of regulatory compliance and adversely affect our financial results, growth rates and prospects. For example, Congressional hearings and the continuing state attorneys general, CFPB and FTC investigations affecting for-profit institutions may spur plaintiffs’ law firms or others to initiate additional litigation against us and other for-profit education providers.

We are subject to a variety of other claims and litigation that arise from time to time alleging non-compliance with or violations of state or federal regulatory matters including, but not limited to, claims involving students, graduates and employees. In the event the extensive changes in the overall federal and state regulatory construct results in additional statutory or regulatory bases for these types of matters, or other events result in more of such claims or unfavorable outcomes to such claims, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows and results of operations for the periods in which the effects of any such matter or matters becomes probable and reasonably estimable. The new “borrower defense to repayment” rules may create significant regulatory pressures on institutions to resolve outstanding inquiries, if possible, prior to the July 1, 2017 effective date to avoid the additional uncertainties of ED’s response to future resolutions of disputes, assuming the regulations are not modified.

We cannot predict the ultimate outcome of these and future matters and expect to continue to incur significant defense costs and other expenses in connection with them. We may be required to pay substantial damages or settlement costs in excess of our insurance coverage related to these matters. Government investigations, including the pending state attorneys general investigations in which we are involved, and any related legal and administrative proceedings may result in the institution of administrative, civil injunctive or criminal proceedings against us and/or our current or former directors, officers or employees, or the imposition of significant fines, penalties or suspensions, or other remedies and sanctions. Any such costs and expenses could have a material adverse effect on our financial condition and results of operations and the market price of our common stock.

We compete with a variety of educational institutions, especially in the online education market, and if we are unable to compete effectively, our total student enrollment and revenue could be adversely impacted.

The postsecondary education industry is highly fragmented and increasingly competitive. Our institutions compete with traditional public and private two-year and four-year colleges and universities, other for-profit institutions, other online education providers, and alternatives to higher education, such as immediate employment and military service. Some public and private institutions charge lower tuition for courses of study similar to those offered by our institutions due, in part, to government subsidies, government and foundation grants, tax-deductible contributions and other financial resources not available to for-profit institutions, and this competition may increase if additional subsidies or resources become available to those institutions. For example, a typical community college is subsidized by local or state government and, as a result, tuition rates for associate's degree programs are much lower at community colleges than at our institutions. Legislation has also been introduced in Congress that would pay for two years of community and technical colleges for first-time students who enroll on at least a half-time basis and maintain satisfactory academic progress. Our competitors may have substantially greater brand recognition and financial and other resources than we have or may be subject to fewer regulatory burdens on enrollment and financial aid processes, which may enable them to compete more effectively for potential students. We also expect to experience increased competition as more postsecondary education providers increase their online program offerings, including traditional and community colleges that had not previously offered online education programs, and increase their use of adaptive learning technologies. An increase in competition could affect the success of our recruiting efforts,

or cause us to reduce our tuition rates and increase our marketing and other recruiting expenses, which could adversely impact our profitability and cash flows.

Our financial performance depends, in part, on our ability to continue to develop awareness and acceptance of our institutions and programs among high school graduates and working adults in a cost effective manner.

If our institutions are unable to successfully market and advertise their educational programs, our institutions' ability to attract and enroll prospective students in such programs could be adversely affected, and, consequently, our ability to increase revenue or maintain profitability could be impaired. Some of the factors that could prevent us from successfully marketing and advertising our institutions and the programs that they offer include, but are not limited to: student or employer dissatisfaction with educational programs and services; diminished access to prospective students; our failure to maintain or expand our brand names or other factors related to our marketing or advertising practices; FTC or Federal Communications Commission restrictions on contacting prospective students, Internet, mobile phone and other advertising and marketing media; costs and effectiveness of Internet, mobile phone and other advertising programs; and changing media preferences of our target audiences. In addition, we use third-party lead aggregators to help us identify potential students. The practices of some lead aggregators have been questioned by various regulatory bodies, which could lead to changes in the quality and number of the leads provided by these lead aggregators as well as the cost thereof, which could in turn result in a reduction in the number of students we enroll.

Our future financial condition and results of operations could be materially adversely affected if we are required to write down the carrying value of non-financial assets and non-financial liabilities, including long-lived assets, deferred tax assets and goodwill and intangible assets, such as our trade names.

In accordance with U.S. GAAP, we review our non-financial assets and non-financial liabilities, including goodwill and indefinite-lived intangible assets, such as our trade names, for impairment on at least an annual basis through the application of fair value-based measurements. On an interim basis, we review our assets and liabilities to determine if a triggering event had occurred that would result in it being more likely than not that the fair value would be less than the carrying amount for any of our reporting units or indefinite-lived intangible assets. We determine the fair value of our reporting units using a combination of an income approach, based on discounted cash flow, and a market-based approach. To the extent the fair value of a reporting unit is less than its carrying amount, we may be required to record an impairment charge in the consolidated statements of (loss) income and comprehensive (loss) income. We determine the fair value of our trade names using a relief from royalty method which is based on the assumption that, in lieu of ownership of an intangible asset, a company would be willing to pay a royalty in order to enjoy the benefits of the asset. To the extent the fair value of the trade name is less than its carrying amount, we record an impairment charge in the consolidated statements of (loss) income and comprehensive (loss) income. During 2016 and 2015, we recorded asset impairment charges of $1.2 million and $60.5 million, respectively, for our continuing operations (see Note 8 "Goodwill and Other Intangible Assets" and Note 6 “Property and Equipment” to our consolidated financial statements). Our estimates of fair value for these are based primarily on projected future results and expected cash flows consistent with our plans to manage the underlying businesses. However, should we encounter unexpected economic conditions or operational results or need to take additional actions not currently foreseen to comply with current and future regulations, the assumptions used to calculate the fair value of our assets, estimate of future cash flows, revenue growth, and discount rates, could be negatively impacted and could result in an impairment of goodwill or other long-lived assets which could materially adversely affect our financial condition and results of operations.

Furthermore, we believe that our evaluation of deferred tax assets and the need for a valuation allowance against such assets involve critical accounting estimates because they are subject to, among other things, estimates of future taxable income and future changes in the effective corporate tax rate. These estimates are susceptible to change and are dependent on events that may or may not occur. Our assessment of the need for or release of a valuation allowance is material to the assets reported on our consolidated balance sheets and changes in any of the assumptions utilized in this assessment could result in an increase or decrease to the valuation allowance recorded as of December 31, 2016.

As of December 31, 2016, we have recorded a partial valuation allowance in the amount of $49.7 million related to that portion of our deferred tax assets which we determined were not more likely than not to be realized based upon the existing positive and negative evidence. Future changes in circumstances that cause a change in judgment about the realizability of the deferred tax asset could result in an increase or decrease to the valuation allowance recorded within the consolidated balance sheet in future periods and could cause our income tax provision to vary significantly among financial reporting periods.

The loss of our key personnel could harm us.

Our future success depends largely on the skills, efforts and motivation of our executive officers and other key personnel, as well as on our ability to attract and retain qualified managers and our institutions' ability to attract and retain qualified faculty members and administrators. Many leadership positions within the Company have been transitioned over recent years. This includes several changes in the offices of Chief Executive Officer and Chief Financial Officer. These transitions and loss of key personnel in the future could slow implementation of key initiatives, lead to changes in or create uncertainty about our business strategies or otherwise impact management's attention to operations. We face competition in attracting, hiring and retaining executives and key personnel who possess the skill sets and experiences that we seek. Cost reduction measures due to declining enrollments, our recent

operating losses and the negative publicity surrounding our industry make it difficult and more expensive to attract, hire and retain qualified and experienced personnel. In addition, key personnel may leave us and subsequently compete against us after any period they are contractually obligated not to pursue such activities. The loss of the services of our key personnel, or our failure to attract, integrate and retain other qualified and experienced personnel on acceptable terms could adversely affect our results of operations or growth prospects.

Our credit facility and letters of credit are cash-collateralized and therefore may impact our liquidity.

The loans and letter of credit obligations under our credit facility are secured by 100% cash collateral. Cash generated by operations may continue to decrease due to lower student enrollments and operating losses. Further, any settlements or negative decisions in regulatory proceedings or other legal actions against us may reduce existing available cash balances. We therefore may have liquidity needs in the future which the credit facility will not meet. For example, we may not have the capacity to post required letters of credit we may need in the future for state licensing requirements, if we are required to satisfy ED's standards of financial responsibility on an alternative basis or for other purposes due to insufficient cash available to provide security. If cash generated by operations and existing cash balances are insufficient in the future to support our cash requirements, we would need to pursue other sources of liquidity, if available, such as additional sources of credit which may be more expensive, issuance of stock to new investors or a sale of assets.

We may be compelled to terminate programs due to regulatory considerations or declining enrollments and may incur additional costs and expenses associated with past or future exit activities.

We must balance current student populations and projected changes in student population with appropriate levels of costs and investment in real estate and our online platforms. We have in the past decided to teach out certain programs due to existing regulatory considerations such as minimum placement rate standards, the 90-10 Rule, the gainful employment regulation and other factors, and we may need to cease offering additional programs as a result of the gainful employment or other regulations. We have also made the decision to teach out numerous campuses. Changes in the economy, regulatory environment or unavailability of Title IV Program funds may cause us to terminate additional programs. Closing facilities or other exit activities involve costs and expenses which can be significant. Actual costs and expenses involved in closing facilities or other exit activities may be higher than expected and the benefits anticipated may be less due to a number of factors including unanticipated expenses in teaching out campuses and higher than expected lease costs.

Our financial performance depends, in part, on our ability to keep pace with changing market needs and technology.

Increasingly, prospective employers of students who graduate from our institutions demand that their new employees possess appropriate technological skills and also appropriate “soft” skills, such as communication, critical thinking and teamwork skills. These skills can evolve rapidly in a changing economic and technological environment, so it is important for our institutions’ educational programs to evolve in response to those economic and technological changes. Current or prospective students or the employers of our graduates may not accept expansion of our existing programs, improved program content and the development of new programs. Even if our institutions are able to develop acceptable new and improved programs in a cost-effective manner, our institutions may not be able to begin offering them as quickly as prospective employers would like or as quickly as our competitors offer similar programs. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, rapid technological changes or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could decline, and our results of operations and cash flows could be adversely affected.

Government regulations relating to the Internet could increase our cost of doing business or otherwise have a material adverse effect on our business.

The increasing popularity and use of the Internet and other online services has led and may lead to the adoption of new laws and regulatory practices in the United States or in foreign countries and to new interpretations of existing laws and regulations. These new laws and interpretations may relate to issues such as online privacy, copyrights, trademarks and service marks, sales taxes, fair business practices and the requirement that online education institutions qualify to do business as foreign corporations or be licensed in one or more jurisdictions where they have no physical location or other presence. New laws, regulations or interpretations related to doing business over the Internet could increase our costs and adversely affect enrollments.

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

Our efforts to attract and enroll students result in us collecting, using and keeping substantial amounts of personal information regarding applicants, our students, their families and alumni, including social security numbers and financial data. We also maintain personal information about our employees in the ordinary course of our activities. Our services, the services of many of our health plan and benefit plan vendors, and other information can be accessed globally through the Internet. We rely extensively on our

network of interconnected applications and databases for day to day operations as well as financial reporting and the processing of financial transactions. Our computer networks and those of our vendors that manage confidential information for us or provide services to our students may be vulnerable to unauthorized access, inadvertent access or display, theft or misuse, hackers, computer viruses, or third parties in connection with hardware and software upgrades and changes. Such unauthorized access, misuse, theft or hacks could evade our intrusion detection and prevention precautions without alerting us to the breach or loss for some period of time or may never be detected. We have experienced malware and virus attacks on our systems which went undetected by our virus detection and prevention software. Regular patching of our computer systems and frequent updates to our virus detection and prevention software with the latest virus and malware signatures may not catch newly introduced malware and viruses or "zero-day" viruses, prior to their infecting our systems and potentially disrupting our data integrity, taking sensitive information or affecting financial transactions. Because our services can be accessed globally via the Internet, we may be subject to privacy laws in countries outside the U.S. from which students access our services, which laws may constrain the way we market and provide our services. While we utilize security and business controls to limit access to and use of personal information, any breach of student or employee privacy or errors in storing, using or transmitting personal information could violate privacy laws and regulations resulting in fines or other penalties. The adoption of new or modified state or federal data or cybersecurity legislation could increase our costs and/or require changes in our operating procedures or systems. A breach, theft or loss of personal information held by us or our vendors, or a violation of the laws and regulations governing privacy could have a material adverse effect on our reputation or result in lawsuits, additional regulation, remediation and compliance costs or investments in additional security systems to protect our computer networks, the costs of which may be substantial.

System disruptions and vulnerability from security risks to our online technology infrastructure could have a material adverse effect on our ability to attract and retain students.

For our online and ground-based campuses, the performance and reliability of program infrastructure is critical to their operations, reputation and ability to attract and retain students. Any computer system error or failure, significant increase in traffic on our computer networks, or any significant failure or unavailability of our computer networks, including but not limited to those as a result of natural disasters and network and telecommunications failures could materially disrupt our delivery of these programs. Any interruption to our institutions' computer systems or operations could have a material adverse effect on our total student enrollment, our business, financial condition, results of operations and cash flows.

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Due to the sensitive nature of the information contained on our networks hackers may target our networks. We may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. We cannot ensure that these efforts will protect our computer networks against security breaches despite our regular monitoring of our technology infrastructure security.

Our institutions' online programs' success depends, in part, on our institutions' ability to expand the content of their programs, develop new programs in a cost-effective manner, maintain good standing with regulators and accreditors, and meet students' needs in a timely manner. New programs can be delayed due to current and future unforeseen regulatory restrictions. Furthermore, our regulators may impose additional restrictions or conditions on the manner in which we offer online courses to our students, any one of which could negatively impact our business or results of operations.

Any general decline in Internet use for any reason, including security or privacy concerns, cost of Internet service or changes in government regulation, could result in less demand for online educational services and inhibit growth in our online programs.

We may incur liability for the unauthorized duplication or distribution of class materials posted online for class discussions.

In some instances our faculty members or our students may post various articles or other third-party content on class discussion boards or download third-party content to personal computers. We may incur claims or liability for the unauthorized duplication or distribution of this material. Any such claims could subject us to costly litigation and could impose a strain on our financial resources and management personnel regardless of whether the claims have merit.

We rely on proprietary rights and intellectual property in conducting our business, which may not be adequately protected under current laws, and we may encounter disputes from time to time relating to our use of intellectual property of third parties.

Our success depends in part on our ability to protect our proprietary rights. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names and agreements to protect our proprietary rights. We rely on service mark and trademark protection in the United States and select foreign jurisdictions to protect our rights to our marks as well as distinctive logos and other marks associated with our services. These measures may not be adequate, that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights. Unauthorized third parties may attempt to duplicate the proprietary aspects of our curricula, online resource material and other content despite our efforts to protect these rights. Our management's attention may be diverted by these attempts, and we may need to use funds for lawsuits to protect our proprietary rights against any infringement or violation.

These and other risks exist with respect to our intellipath™ adaptive learning technology, which incorporates technology that we have a perpetual but non-exclusive license to use. We receive software support for the intellipath technology from CCKF, a Dublin-based educational technology company in which we have an equity investment. If CCKF ceases to operate or otherwise becomes unable to work with our institutions, it would be necessary to either develop the ability to support the software using our own resources or engage another third party vendor to provide these services, which transition could be economically disadvantageous, cause an interruption in the use of the technology and present a distraction to management and applicable business units, any of which could negatively impact our business.

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party. Some third party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit.

Risk Related to Our Common Stock

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

Our stock price has declined substantially since mid-2011. The trading price of our common stock has and may fluctuate significantly as a result of a number of factors, some of which are not in our control. These factors include:

- general conditions in the postsecondary education field, including declining enrollments;
- the outcomes and impacts on our business of ED’s rulemakings, and other changes in the legal or regulatory environment in which we operate;
- negative media coverage of the for-profit education industry;
- the initiation, pendency or outcome of litigation, accreditation reviews, regulatory reviews, inquiries and investigations, including the pending state attorneys general investigations in which we are involved, and any related adverse publicity;
- failure of certain of our institutions or programs to maintain compliance under the gainful employment regulation, 90-10 Rule or with financial responsibility standards;
- loss of key personnel;
- our ability to meet or exceed, or changes in, expectations of analysts or investors, or the extent of analyst coverage of our company;
- decisions by any significant investors to reduce their investment in us;
- quarterly variations in our operating results;

- price and volume fluctuations in the overall stock market, which may cause the market price for our common stock to fluctuate significantly more than the market as a whole; and

- general economic conditions.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our campuses are located throughout the United States. Each of our campuses contains admissions and administrative offices and for our ground-based campuses, teaching facilities, including classrooms, laboratories, and, in the case of campuses with culinary arts programs, kitchens. Additionally, we have administrative facilities located primarily within the Chicagoland area.

Almost all of our campus and administrative facilities are leased. As of December 31, 2016 we leased approximately 2.5 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to

seven years. As of December 31, 2016, we leased approximately 0.6 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from one to three years. As of December 31, 2016, we owned less than 0.1 million square feet of real property utilized by American InterContinental University and Sanford-Brown College, located in Houston, TX.

See Item 1, “Business,” for a listing of our campus locations. The listing excludes institutions that have been sold and campuses that have ceased operations.

We actively monitor our real estate needs in light of our current utilization and projected student enrollment growth. A key goal is to mitigate overall operating expenses by disposing of excess properties as student enrollments shrink at campuses that are in teach-out. In addition we are completing campus reconfigurations and consolidations to continue to provide facilities and services that will effectively serve out students.

ITEM 3. LEGAL PROCEEDINGS

Note 11 “Contingencies” to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed on the NASDAQ Global Select Market ("NASDAQ") under the symbol "CECO."

The following table sets forth the range of high and low sales prices per share for our common stock as reported on the NASDAQ:

	Price Range of Common Stock	
	High	Low
2016		
First quarter	$4.82	$2.23
Second quarter	6.19	4.33
Third quarter	7.53	5.86
Fourth quarter	10.53	6.55

	High	Low
2015		
First quarter	$7.10	$4.90
Second quarter	5.19	3.28
Third quarter	4.82	2.76
Fourth quarter	4.94	3.32

The closing price of our common stock as reported on the NASDAQ on February 17, 2017 was $9.34 per share. As of February 17, 2017, there were approximately 112 holders of record of our common stock.

Our common stock transfer agent and registrar is Computershare Trust Company, N.A. They can be contacted at P.O. Box# 30170, College Station, TX 77842-3170 or at their website www.computershare.com/investor.

We have never paid cash dividends on our common stock and have no plan to do so in the foreseeable future. The declaration and payment of dividends on our common stock are subject to the discretion of our Board of Directors. The decision of our Board of Directors to pay future dividends will depend on general business conditions, the effect of a dividend payment on our financial condition, and other factors the Board of Directors may consider relevant. In addition, our credit facility limits the payment of cash dividends. The current policy of our Board of Directors is to reinvest earnings in our operations to promote future growth and, from time to time, to execute repurchases of shares of our common stock under the stock repurchase program discussed below. The repurchase of shares of our common stock reduces the amount of cash available to pay cash dividends to our common stockholders.

We did not repurchase any shares of our common stock during the year ended December 31, 2016 except for shares delivered back to the Company for payment of withholding taxes from employees for vesting restricted shares or units. Under the Company's previously authorized stock repurchase program, stock repurchases may be made on the open market or in privately negotiated transactions from time to time, depending on factors including market conditions and corporate and regulatory requirements. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. As of December 31, 2016, approximately $183.3 million was available under the stock repurchase program.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 31, 2015				$ 183,296,772
January 1, 2016—January 31, 2016	-	$ -	-	183,296,772
February 1, 2016—February 29, 2016	-	-	-	183,296,772
March 1, 2016—March 31, 2016	97,266	4.29	-	183,296,772
April 1, 2016—April 30, 2016	-	-	-	183,296,772
May 1, 2016—May 31, 2016	-	-	-	183,296,772
June 1, 2016—June 30, 2016	17,932	5.70	-	183,296,772
July 1, 2016—July 31, 2016	-	-	-	183,296,772
August 1, 2016—August 31, 2016	-	-	-	183,296,772
September 1, 2016—September 30, 2016	4,628	6.58	-	183,296,772
October 1, 2016—October 31, 2016	-	-	-	183,296,772
November 1, 2016—November 30, 2016	-	-	-	183,296,772
December 1, 2016—December 31, 2016	1,271	10.34	-	183,296,772
Total	121,097		-	

(1) Includes 121,097 shares delivered back to the Company for payment of withholding taxes from employees for vesting restricted stock units pursuant to the terms of the Career Education Corporation 2008 Incentive Compensation Plan.

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for information as of December 31, 2016, with respect to shares of our common stock that may be issued under our existing share-based compensation plans.

The graph below shows a comparison of cumulative total returns for CEC, the Standard & Poor's 500 Index and an index of peer companies selected by CEC. The companies in the peer index are weighted according to their market capitalization as of the end of each period for which a return is indicated. Included in the peer index are the following companies whose primary business is postsecondary education, including: Apollo Education Group, Inc., Bridgepoint Education Inc., Capella Education Company, DeVry Education Group Inc., and Strayer Education, Inc. Capella Education Company was added to the peer index for the current year in replacement of ITT Educational Services, Inc. which was included in the prior year. The reason for the change is due to the delisting of ITT Educational Services, Inc. from NASDAQ during 2016. Capella Education Company is a similarly related competitor. The performance graph begins with CEC's $7.97 per share closing price on December 31, 2011.

COMPARISON OF CUMULATIVE FIVE-YEAR TOTAL RETURN

(Based on $100 invested on December 31, 2011 and assumes the reinvestment of all dividends.)

The information contained in the performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall such information be deemed incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as both are amended from time to time, except to the extent specifically incorporated by reference into such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial and other data are qualified in their entirety by reference to, and should be read in conjunction with, our consolidated financial statements and the related notes thereto appearing elsewhere in this annual report and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our selected statement of (loss) income and comprehensive (loss) income and statement of cash flows data set forth below for each of the five years ended December 31, 2016, 2015, 2014, 2013 and 2012, and the balance sheet data as of December 31, 2016, 2015, 2014, 2013 and 2012, are derived from our audited consolidated financial statements.

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share amounts)				
Selected Statements of (Loss) Income and Comprehensive (Loss) Income Data					
Total revenue	$704,392	$847,273	$913,964	$1,017,230	$1,244,745
Operating expenses:					
Educational services and facilities	235,100	289,777	323,259	361,067	422,647
General and administrative	477,725	564,211	640,454	734,338	764,795
Depreciation and amortization	22,747	24,938	53,382	62,237	66,022
Goodwill and asset impairment [1]	1,164	60,515	36,141	21,647	94,825
Total operating expenses	736,736	939,441	1,053,236	1,179,289	1,348,289
Operating loss	(32,344)	(92,168)	(139,272)	(162,059)	(103,544)
Operating margin percentage	-4.6%	-10.9%	-15.2%	-15.9%	-8.3%
Total other income (expense)	978	(2,270)	446	(6,764)	890
Pretax loss	(31,366)	(94,438)	(138,826)	(168,823)	(102,654)
(Benefit from) provision for income taxes	(16,550)	(147,454)	3,736	456	(16,394)
(Loss) income from continuing operations	(14,816)	53,016	(142,562)	(169,279)	(86,260)
(Loss) income from discontinued operations, net of tax [2]	(3,896)	(1,131)	(35,601)	5,016	(56,536)
Net (loss) income	$(18,712)	$51,885	$(178,163)	$(164,263)	$(142,796)
Net (loss) income per share - basic and diluted:					
(Loss) income from continuing operations	$(0.22)	$0.78	$(2.12)	$(2.54)	$(1.30)
(Loss) income from discontinued operations	(0.05)	(0.02)	(0.53)	0.08	(0.85)
Net (loss) income	$(0.27)	$0.76	$(2.65)	$(2.46)	$(2.15)

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Selected Balance Sheet Data					
Assets:					
Cash and cash equivalents, restricted cash and short-term investments	$207,160	$231,641	$239,628	$362,624	$274,174
Student receivables, net [3]	$25,880	$35,576	$35,317	$38,620	$55,451
Total current assets	$248,193	$288,963	$318,107	$460,017	$543,561
Total assets	$559,601	$610,915	$573,534	$805,045	$1,122,703
Liabilities:					

Deferred tuition revenue	$28,364	$40,112	$54,573	$59,609	$61,847
Total current liabilities	$169,212	$192,805	$180,237	$207,432	$352,715
Total liabilities	$238,098	$273,305	$291,601	$349,661	$510,913
Working capital	$78,981	$96,158	$137,870	$252,585	$190,846
Total stockholders' equity	$321,503	$337,610	$281,933	$455,384	$611,790

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Selected Statements of Cash Flows Data					
Net cash provided by (used in) operating activities	$5,912	$(21,686)	$(118,624)	$(85,804)	$(16,798)
Net cash (used in) provided by investing activities	$(34,351)	$(7,991)	$(107,623)	$166,866	$58,355
Net cash provided by (used in) financing activities	$11,219	$2,518	$980	$6,103	$(79,690)
Capital expenditures	$(4,129)	$(11,695)	$(13,156)	$(19,636)	$(37,944)

(1) See Note 6 “Property and Equipment” and Note 8 “Goodwill and Other Intangible Assets” to our consolidated financial statements for further discussion of these impairment charges.
(2) See Note 17 “Discontinued Operations” to our consolidated financial statements for further discussion.
(3) Student receivables, net includes both current and non-current balances.

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

The discussion below contains "forward-looking statements," as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. We have tried to identify forward-looking statements by using words such as "anticipate," "believe," "expect," "intend," "should," "will," "continue to" and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those matters discussed in Item 1A, "Risk Factors," in Part I of this Annual Report on Form 10-K that could cause our actual growth, results of operations, cash flows, performance, business prospects and opportunities to differ materially from those expressed in, or implied by, these statements. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances, or for any other reason.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K. The MD&A is intended to help investors understand the results of operations, financial condition and present business environment. The MD&A is organized as follows:

- Overview
- Consolidated Results of Operations
- Segment Results of Operations
- Summary of Critical Accounting Policies and Estimates
- Liquidity, Financial Position and Capital Resources

OVERVIEW

Our academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and blended 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.

In 2015, we made the strategic decision to focus our resources and attention on our two universities. In accordance with that strategy, we are in the process of teaching out campuses within our Transitional Group and Culinary Arts segments. Students enrolled at these campuses have been afforded the reasonable opportunity to complete their program of study prior to the final teach-out date. During 2016 we completed the teach-out of thirteen campuses within our teach-out segments. The results of operations for these campuses will remain reported within the Transitional Group and Culinary Arts, as applicable, as part of continuing operations, in accordance with ASC Topic 360, which limits discontinued operations reporting effective January 1, 2015.

Regulatory Environment

We operate in a highly regulated industry, which has significant impacts on our business and creates risks and uncertainties. In recent years, there has been substantial and increasing focus by various members of the U.S. Congress and federal agencies, including ED, the Consumer Financial Protection Bureau and the Federal Trade Commission, on the role that for-profit educational institutions play in higher education. Congressional hearings and roundtable discussions have been held regarding various aspects of the education industry and reports have been issued that are highly critical of for-profit institutions and include a number of recommendations to be considered by Congress in connection with the upcoming reauthorization of the Higher Education Act. A group of influential U.S. senators has strongly and repeatedly encouraged the Departments of Education, Defense and Veterans Affairs to take action to limit or terminate the participation of for-profit educational institutions, including Career Education Corporation, in existing tuition assistance programs.

In addition, ED has formed an inter-agency task force focused on the for-profit sector involving multiple federal agencies and departments including the Federal Trade Commission, the U.S. Departments of Justice, Treasury and Veterans Affairs, the Consumer Financial Protection Bureau, the Securities and Exchange Commission, and numerous state Attorneys General, to coordinate activities and share information to protect students from unfair, deceptive and abusive policies and practices. We believe that the recent actions by the Federal Trade Commission and the multiple Attorney Generals' offices may be related to or coordinated with this task force. Further, in recent years, two publicly-traded for-profit education institutions, together serving over 110,000 students, have ceased operations and filed for bankruptcy protection due to delays in or denial by ED of Title IV Program funding for students and requirements to post letters of credit, based in part on the existence of multiple investigations by various regulatory authorities. In neither case were the principal investigations completed nor were substantial enforcement actions commenced and prosecuted to conclusion. Accordingly, for-profit institutions have been at risk of harmful delays or denial of Title IV Program funding for students due to investigations and other preliminary allegations, even if such investigations or allegations may ultimately be found to lack merit. At this time, the future direction of many of these initiatives is uncertain as they may be impacted by federal budget cuts and/or shifts in policy goals and administration priorities in connection with the recent presidential election.

We encourage you to review Item 1, "Business," and Item 1A, "Risk Factors," to learn more about our highly regulated industry and related risks and uncertainties.

Note Regarding Non-GAAP measures

We believe it is useful to present non-GAAP financial measures which exclude certain significant items as a means to understand the performance of our core business. As a general matter, we use non-GAAP financial measures in conjunction with results presented in accordance with GAAP to help analyze the performance of our core business, assist with preparing the annual operating plan, and measure performance for some forms of compensation. In addition, we believe that non-GAAP financial information is used by analysts and others in the investment community to analyze our historical results and to provide estimates of future performance.

We believe certain non-GAAP measures allow us to compare our current operating results with respective historical periods and with the operational performance of other companies in our industry because it does not give effect to potential differences caused by items we do not consider reflective of underlying operating performance, such as our teach-out campuses. In evaluating the use of non-GAAP measures, investors should be aware that in the future we may incur expenses similar to the adjustments presented below. Our presentation of non-GAAP measures should not be construed as an inference that our future results will be unaffected by expenses that are unusual, non-routine or non-recurring. A non-GAAP measure has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income (loss), operating income (loss), or any other performance measure derived in accordance with and reported under GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity.

Non-GAAP financial measures, when viewed in a reconciliation to respective GAAP financial measures, provide an additional way of viewing the Company's results of operations and the factors and trends affecting the Company's business. Non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, the respective financial results presented in accordance with GAAP.

2016 Review

Over the past several years, we have pursued a transformation strategy aimed at reducing the complexity of operations, improving regulatory compliance and focusing our attention on our University Group institutions. Beginning in 2015, we instituted a new management team that has been motivated and focused with a clear vision to serve and educate our students. Our new management team coupled with the announcements of the teach-out of all our remaining Career Schools in 2015 marked the final step of the transformation strategy. As we exited 2016, we had

30 teach-out campuses remaining, with 24 of those expected to complete their closure in 2017 and the remainder to complete their closure in 2018. With a more stream-lined organization, we continue to invest more time, intellectual capital and dollars in various student-serving areas of our University platforms.

2016 marked a critical step in the overall transformation strategy and we believe our strong focus on operational and organizational improvements enhanced our position as a long-term leader in postsecondary education. For the past year, our teams have been focused on refining and executing operational changes while undertaking several new initiatives and investments with the overall goal of improving student experiences both before and after they are enrolled in our programs.

Within our University Group, we continued to leverage technology and make progressive updates to our curriculum and course sequencing. We have further enhanced our mobile platform with added new functionality for the benefit of students. Changes we made to our course sequencing and course design have promoted learning, increased faculty interaction with students and improved overall student experience during their first few sessions, all of which we believe has resulted in improved retention. We have also revised our full-time faculty and admissions training and optimized our spending across marketing channels by allocating resources towards those with a higher propensity of positive outcomes.

Both CTU and AIU have continued to expand their graduate team model structure which personalizes student-facing services in financial aid, admissions and advising that we believe helps increase accountability and ultimately improve overall student

experiences and retention. We also experienced reduced turnover in our admissions and advising functions, and increased the effectiveness and efficiency of our front-end operations, which should ultimately reduce cost per start while improving student experiences.

Within CTU, we modified the application process for first-time students in ways we believe will increase their opportunity for success and make them more prepared for class. Through incremental investments of resources in our financial aid function, we have increased our document collection and counseling efforts with students. We invested in full-time faculty roles and increased our professional development offerings. CTU has also made progressive investments of staff in its academic function and increased the number of full time faculty by 30% since the beginning of 2016. We believe this has improved overall faculty-student engagement, promoted learning and has ultimately resulted in enhanced overall student retention and outcomes.

Within AIU, we focused our efforts during the year on increasing accountability at all operational and student-facing functions by a revised and improved managerial and skill development program. We redesigned our calendar to align better with student lifestyles and provide more desirable breaks in our curriculum, and we have enhanced the first course that undergraduate students take by building workload levels slowly as students develop skills and motivation. Our new student advising model promotes further collaboration between faculty and advisors which we believe elevates accountability and effectiveness of our retention efforts. Additionally, we started improving our discussions around financial aid and transfer of credit counseling with prospective students before they start classes which should better prepare them to be successful in their studies.

Our teach-out campuses remain on track and we have experienced better than expected results within these campuses, primarily driven by strong student retention through the teach-out process. We experienced decreased expenses as a result of the reduction of marketing and admissions expenses within these operations as well as the effective and efficient process that we have developed at these campuses to provide students with the opportunity to complete their programs while minimizing the overall financial impact to the organization.

Financial Highlights

Revenue from continuing operations declined $142.9 million or 16.9% due to an overall 15.3% decrease in total student enrollments for 2016 as compared to the prior year, primarily as a result of our decision to divest or teach out our Career Schools. For the current year, we reported an operating loss of $32.3 million as compared to an operating loss of $92.2 million for the prior year. This improvement was driven by elimination of expenses and asset impairment charges in the current year related to our teach-out campuses and increased revenues within CTU partially offset with legal settlements recorded in the current year. Lastly, we reported cash generated from operations for the current year of $5.9 million, an improvement of $27.6 million from the prior year’s cash usage of $21.7 million.

For our University Group, revenue increased $12.5 million or 2.3% as compared to the prior year, driven by increased revenues within CTU. Total enrollments for the University Group increased by 5.3% for the current year as compared to the prior year. We believe our total enrollment growth is a result of our continued focus on student retention and outcomes and providing our students with positive experiences driven by the initiatives discussed above. Operating income for the University Group decreased $23.2 million, or 24.9%, for the current year as compared to the prior year. Within AIU, we recorded a $10.0 million charge for a legal settlement related to a case that was filed in 2008 which was scheduled to commence in a jury trial later this month. While we felt strongly that this case had no merit, we concluded that moving forward with a trial and incurring the associated legal expenses along with the risks inherent in any jury trial was not in the best interests of the organization and our students. These decisions do not reflect in any way on our ongoing operations, practices and processes. We also recorded a separate charge for associated third-party legal fees of $22.0 million during 2016. Excluding these legal settlements, operating income for the University Group would have improved $8.8 million as compared to the prior year.

During 2016, the use of an adjusted EBITDA measure, in our opinion, was appropriate as it allowed us to compare our current operating results for our operations with respective historical periods and with the operational performance of other companies in our industry because it did not give effect to potential differences caused by items we did not consider reflective of underlying operating performance. Further, as the Transitional Group and Culinary Arts segments have been announced for teach-out, we view these operations as not reflective of the ongoing business. As a result, management viewed adjusted EBITDA from the University Group and Corporate separately from the remainder of the organization, to assess results and make decisions. Adjusted EBITDA for the years ended December 31, 2016 and 2015 is presented below.

Adjusted EBITDA ($ in thousands)	For the Year Ended December 31, 2016	2015
University Group and Corporate:		
(Loss) income from continuing operations [1]	$(14,816)	$53,016
Benefit from income taxes	(16,550)	(147,454)
Transitional Group pre-tax loss	55,856	102,000
Culinary Arts pre-tax loss	20,451	57,518
Interest (income) expense, net [2]	(674)	44
Depreciation and amortization [2]	11,164	15,089
Legal settlements [2] [5]	32,000	200
Stock-based compensation [2]	3,237	2,857
Asset impairments [2]	237	507
Unused space charges [2] [3]	839	(63)
Adjusted EBITDA--University Group and Corporate	$91,744	$83,714
Memo: Advertising Expenses [2]	$154,693	$164,470
Transitional Group, Culinary Arts and Discontinued Operations:		
Loss from discontinued operations [1]	$(3,896)	$(1,131)
Benefit from income taxes from discontinued operations	(2,690)	(997)
Transitional Group pre-tax loss	(55,856)	(102,000)
Culinary Arts pre-tax loss	(20,451)	(57,518)
Interest income, net [4]	(4)	-
Loss on sale of business [4]	-	1,793
Depreciation and amortization [4]	11,583	9,849
Legal settlements [4] [5]	-	1,319
Asset impairments [4]	927	60,008
Unused space charges [3] [4]	20,550	443
Adjusted EBITDA--Transitional, Culinary Arts and Discontinued Operations	$(49,837)	$(88,234)
Consolidated Adjusted EBITDA	$41,907	$(4,520)

(1) (Loss) income from continuing operations and loss from discontinued operations make up the components of net (loss) income. A reconciliation of these components for the years ended December 31, 2016 and December 31, 2015 is presented below:

	For the Year Ended December 31, 2016	2015
(Loss) income from continuing operations	$(14,816)	$53,016
Loss from discontinued operations	(3,896)	(1,131)
Net (loss) income	$(18,712)	$51,885

(2)

Amounts related to ongoing operations, excluding the Transitional Group, Culinary Arts and discontinued operations.

(3) Unused space charges represent the net present value of remaining lease obligations for vacant space less an estimated amount for sublease income as well as the subsequent accretion of these charges. These charges relate to exiting leased space as the Company continues to right-size the organization and therefore are not considered representative of ongoing operations.

(4) Amounts relate to Transitional Group, Culinary Arts and discontinued operations.

(5) Legal settlement amounts are net of insurance recoveries.

We reported a net loss of $18.7 million for the current year as compared to a net income of $51.9 million in the prior year. The prior year results included a tax benefit of $147.5 million driven by a partial reversal of a tax valuation allowance. Consolidated adjusted EBITDA was $41.9 million for the current year as compared to negative consolidated adjusted EBITDA of $4.5 million in the prior year, reflecting an improvement of $46.4 million. Adjusted EBITDA for the University Group and Corporate improved $8.0 million or 9.6% for the current year as compared to the prior year driven by increased revenue within CTU.

Within our teach-out segments, we experienced better than estimated total student enrollment as the campuses wind-down operations. Operating loss for Culinary Arts improved by $37.0 million for the current year as compared to the prior year, driven by

prior year impairments of $52.1 million and operating loss for the Transitional Group improved by $43.9 million for the same period. Adjusted EBITDA for the Transitional Group, Culinary Arts and discontinued operations improved to negative $49.8 million for the current year as compared to negative $88.2 million in the prior year as a result of the inherent economics of the wind-down of our Transitional Group and Culinary Arts campuses. As the teach-outs progress, we expect to see increased operating losses through the end of the teach-outs as the operating expenses to support and serve our students will exceed the revenue from these students as they continue to graduate. We have 14 campuses remaining within the Transitional Group and 16 campuses within the Culinary Arts segment at the end of 2016, which will complete their teach-out at varying dates through 2018 with the majority being complete by the end of 2017.

Outlook

As we look to 2017, our priorities remain the same. We are focused on continuing to improve the market position of our Universities by strengthening the breadth of program offerings, and leveraging faculty and technology, with the goal of enhancing retention and outcomes for our students. Given the improvements in student retention driving total enrollment growth, improved operating leverage as revenue continues to grow while overall operating costs remain optimized, leveraging technology to promote faculty and student engagement which we believe will positively impact retention, improved operating processes in the areas of student onboarding, advising and academics, as well as prospects for new student enrollment growth at both of our Universities, we are updating our 2017 outlook.

With the substantial completion of the teach-outs occuring in 2017, we will begin disclosing our outlook based on an operating income (loss) and adjusted operating income (loss) measure in addition to our outlook for year end cash, cash equivalents, restricted cash and short-term investments. We believe that an adjusted operating income (loss) measure will better reflect the ongoing operations of the business now that the teach-outs will be substantially complete.

We expect the following results, subject to the key assumptions identified below:

- University Group and Corporate operating income and adjusted operating income to grow in 2017 and 2018 as compared to each respective prior year period;
- Adjusted operating loss for our teach-out segments, comprised of the Transitional Group and Culinary Arts, to be in the range of $50 million to $60 million in 2017 and to improve to a range of $10 million to $20 million in 2018 as we wind-down the remainder of our teach-out campuses; and
- End of year cash, cash equivalents, restricted cash and available-for-sale short-term investments, net of any borrowings, as reported on the consolidated balance sheets (i) of approximately $150 million to $160 million for the year ending December 31, 2017, which includes payments related to a legal settlement of $10.0 million and $22.0 million of associated third party legal fees (which amounts were recorded during the fourth quarter of 2016) and (ii) to grow in 2018 as compared to 2017.

Forward looking adjusted operating income (loss) expectations are presented in the reconciliation of GAAP to non-GAAP items below. Operating income (loss), which is the most directly comparable GAAP measure to adjusted operating income (loss), may not follow the same trends as discussed in our outlook above because of adjustments made for unused space charges that represent the present value of future remaining lease obligations for vacated space less an estimated amount for sublease income as well as depreciation, amortization, asset impairment charges and significant legal settlements. The expectations provided in the paragraph above for 2017 and 2018 are based on the following key assumptions and factors, among others: (i) modest total enrollment growth within the University Group while achieving the intended University Group efficiencies, (ii) teach-outs to progress as expected and performance consistent with current trends, (iii) achievement of recovery rates for the Company’s real estate obligations and timing of any associated lease termination payments consistent with the Company’s historical experiences, (iv) right-sizing of the Company’s corporate expense structure to serve primarily online institutions, (v) no material changes in the current legal or regulatory environment and excludes legal and regulatory liabilities which are not probable and estimable at this time and any impact of new or proposed regulations, including the new “borrower defense to repayment”

regulations and the gainful employment regulation, and (vi) consistent working capital movements in line with historical operating trends and potential impacts of teach-out campuses on working capital in line with expectations. Although these estimates and assumptions are based upon management's good faith beliefs regarding current events and actions that may be undertaken in the future, actual results could differ materially from these estimates.

2016 was a year of execution and operational improvement in which we met and exceeded our operational and financial targets. 2017 will be a year in which we transition from a period of teach-outs to what we believe will be a period of sustainable and responsible growth, and we expect an inflection point in our overall operating performance in 2018 and beyond. Our strong cash position will enable us to continue making smart investments in student-facing services, faculty and technology that we believe will continue to enhance overall retention and outcomes for our students. We are focused on improving the strength of our University Group as we seek to improve long-term outcomes and benefits to all of our students and shareholders.

Adjusted operating income (loss) for the years ended December 31, 2016 and 2015, as well as an outlook for the years ending December 31, 2017 and 2018 is presented below (dollars in thousands, unless otherwise noted):

	ACTUAL RESULTS		OUTLOOK	
	For the Year Ended December 31,		For the Year Ended December 31,	
Adjusted Operating Income (Loss)	2015	2016	2017	2018
University Group and Corporate:				
Operating income [1] [2]	$65,749	$44,717	Growth vs 2016	Growth vs 2017
Depreciation and amortization [2]	15,089	11,164	2016 Levels	
Asset impairments [2]	507	237	None Assumed	
Unused space charges [2] [3]	1,556	1,134	None Assumed	
Significant legal settlements [2]	-	32,000	None Assumed	
Adjusted Operating Income-- University Group and Corporate	$82,901	$89,252	Growth vs 2016	Growth vs 2017
Transitional Group and Culinary Arts:				
Operating loss [1] [4]	$(157,917)	$(77,061)	$(80) - $(90) million	$(18) - $(28) million
Depreciation and amortization [4]	9,849	11,583	~ $5 million	—
Asset impairments [4]	60,008	927	None Assumed	
Unused space charges [3] [4]	17,940	34,719	~ $25 million	~ $8 million
Adjusted Operating Loss -- Transitional and Culinary Arts	$(70,120)	$(29,832)	$(50) - $(60) million	$(10) - $(20) million

---

(1) Operating income for the University Group and Corporate and operating loss for the Transitional Group and Culinary Arts make up the components of operating (loss) income. A reconciliation of these components for the years ended December 31, 2016 and December 31, 2015 is presented below:

	For the Year Ended December 31,	
	2015	2016
Operating income for University Group and Corporate	$65,749	$44,717
Operating loss for Culinary Arts and Transitional	(157,917)	(77,061)
Operating loss	$(92,168)	$(32,344)

(2) Amounts relate to the University Group and Corporate.

(3) Unused space charges represent the net present value of remaining lease obligations for vacated space less an estimated amount for sublease income. These charges relate to exiting leased space as the Company continues to right-size the organization and therefore are not considered representative of ongoing operations.

(4) Amounts relate to the Transitional Group and Culinary Arts.

CONSOLIDATED RESULTS OF OPERATIONS

The summary of selected financial data table below should be referenced in connection with a review of the following discussion of our results of operations for the years ended December 31, 2016, 2015 and 2014 (dollars in thousands):

	For the Year Ended December 31,					
	2016	% of Total Revenue	2015	% of Total Revenue	2014	% of Total Revenue
TOTAL REVENUE	$704,392		$847,273		$913,964	
OPERATING EXPENSES						
Educational services and facilities [(1)]	235,100	33.4 %	289,777	34.2 %	323,259	35.4 %
General and administrative [(2)]:						
Advertising	154,949	22.0 %	220,518	26.0 %	252,995	27.7 %
Admissions	84,397	12.0 %	107,854	12.7 %	122,784	13.4 %
Administrative	206,330	29.3 %	213,627	25.2 %	249,811	27.3 %
Bad debt	32,049	4.5 %	22,212	2.6 %	14,864	1.6 %
Total general and administrative expense	477,725	67.8 %	564,211	66.6 %	640,454	70.1 %
Depreciation and amortization	22,747	3.2 %	24,938	2.9 %	53,382	5.8 %
Asset impairment	1,164	0.2 %	60,515	7.1 %	36,141	4.0 %
OPERATING LOSS	(32,344)	-4.6 %	(92,168)	-10.9 %	(139,272)	-15.2 %
PRETAX LOSS	(31,366)	-4.5 %	(94,438)	-11.1 %	(138,826)	-15.2 %
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(16,550)	-2.3 %	(147,454)	-17.4 %	3,736	0.4 %
Effective tax rate	-52.8 %		-156.1 %		2.7 %	
(LOSS) INCOME FROM CONTINUING OPERATIONS	(14,816)	-2.1 %	53,016	6.3 %	(142,562)	-15.6 %
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(3,896)	-0.6 %	(1,131)	-0.1 %	(35,601)	-3.9 %
NET (LOSS) INCOME	$(18,712)	-2.7 %	$51,885	6.1 %	$(178,163)	-19.5 %

(1) Educational services and facilities expense includes costs directly attributable to the educational activities of our institutions, including: salaries and benefits of faculty, academic administrators and student support personnel, and costs of educational supplies and facilities, such as rents on campus leases, certain costs of establishing and maintaining computer laboratories and owned and leased facility costs. Also included in educational services and facilities expense are costs of other goods and services provided by our campuses, including costs of textbooks and laptop computers.

(2) General and administrative expense includes salaries and benefits of personnel in corporate and campus administration, marketing, admissions, financial aid, accounting, human resources, legal and compliance. Other expenses within this expense category include costs of advertising and production of marketing materials, occupancy of the corporate offices and bad debt expense.

Year Ended December 31, 2016 as Compared to the Year Ended December 31, 2015

Revenue

Current year revenue decreased 16.9% or $142.9 million driven by an overall 15.3% decline in total student enrollment. Excluding the Transitional Group and Culinary Arts, which no longer enroll new students as they teach out each campus, revenue for our ongoing operations increased approximately 2.2% or $12.3 million primarily driven by an increase of 5.3% in total student enrollments for the University Group. The increase in total student enrollments is primarily driven by investments in student facing services such as financial aid and advising which positively impacted student retention within our University Group.

Educational Services and Facilities Expense (dollars in thousands)

	For the Year Ended December 31,					
	2016	% of Total Revenue	2015	% of Total Revenue	2014	% of Total Revenue
Educational services and facilities:						
Academics & student related	$132,625	18.8 %	$185,404	21.9 %	$207,683	22.7 %
Occupancy	102,475	14.5 %	104,373	12.3 %	115,576	12.6 %
Total educational services and facilities	$235,100	33.4 %	$289,777	34.2 %	$323,259	35.4 %

The decrease in educational services and facilities expense as compared to the prior year was primarily driven by lower academic costs within our teach-out campuses, most notably faculty and bookstore costs, partially offset with a slight increase within CTU due to investments in faculty. The decrease in occupancy expenses was driven by the continued focus over the past several quarters to exit or sublease facilities as campuses complete their teach-out. As campuses cease operations, a charge is recorded at the cease use date which represents the net present value of all future remaining lease obligations offset with any estimated sublease income. Additionally, we continue to optimize real estate across our ongoing operations to right-size our facilities with student enrollments.

General and Administrative Expense (dollars in thousands)

	For the Year Ended December 31,					
	2016	% of Total Revenue	2015	% of Total Revenue	2014	% of Total Revenue
General and administrative:						
Advertising	$154,949	22.0 %	$220,518	26.0 %	$252,995	27.7 %
Admissions	84,397	12.0 %	107,854	12.7 %	122,784	13.4 %
Administrative	206,330	29.3 %	213,627	25.2 %	249,811	27.3 %
Bad Debt	32,049	4.5 %	22,212	2.6 %	14,864	1.6 %
Total general and administrative expense	$477,725	67.8 %	$564,211	66.6 %	$640,454	70.1 %

General and administrative expenses have decreased as compared to the prior year primarily due to decreases within advertising, admissions and administrative expenses. The lower advertising expense was substantially related to elimination of advertising on Career Schools brands as a result of campus teach-outs as well as decreased expense within our University Group related to efficiencies developed within certain marketing channels that optimized our lead buying process. Admissions costs have decreased primarily in salary and related expenses due to the Transitional Group and Culinary Arts no longer enrolling new students offset with an increase in University Group's admissions expenses to enhance student onboarding and first session experience. Administrative expense was lower as compared to the prior year primarily due to reductions associated with the teach-out of campuses partially offset with reserves recorded for $22.0 million of third party legal fees and a $10.0 million legal settlement.

Bad debt expense incurred by each of our segments during the years ended December 31, 2016, 2015 and 2014 was as follows (dollars in thousands):

	For the Year Ended December 31,					
	2016	As a % of Segment Revenue	2015	As a % of Segment Revenue	2014	As a % of Segment Revenue
Bad debt expense by segment:						
CTU	$22,233	6.0 %	$13,697	3.9 %	$9,587	2.8 %
AIU	7,705	4.0 %	5,186	2.6 %	4,726	2.4 %
Total University Group	29,938	5.3 %	18,883	3.4 %	14,313	2.7 %
Corporate and Other	(422)	NM	(686)	NM	(731)	NM
Subtotal	29,516	5.2 %	18,197	3.3 %	13,582	2.5 %
Culinary Arts	1,822	1.7 %	1,640	1.0 %	(986)	-0.6 %
Transitional Group	711	1.9 %	2,375	1.9 %	2,268	1.1 %
Total bad debt expense	$32,049	4.5 %	$22,212	2.6 %	$14,864	1.6 %

The increase in bad debt expense was primarily driven by an increase in our reserve rates due to historical performance as well as an increase in reserve rates related to students who are experiencing a greater time lag while completing the financial aid

application process due to increased verification procedures implemented by ED. The second half of the year experienced a slight negative impact related to ED program integrity and improvement regulations regarding cash management of Title IV federal student aid funds, in particular issuing Title IV credit balances, which became effective July 1, 2016. We expect to experience this trend for the full year in 2017.

Asset Impairment

During 2016, we recorded approximately $1.2 million of long-lived asset impairment charges, of which $0.9 million were primarily related to the Culinary Arts and Transitional Group segments to record asset impairment upon early vacating of space. The prior year included $60.5 million of long-lived asset and trade name impairments primarily recorded within the teach-out segments upon announcement of teach-out. See Note 6 “Property and Equipment” and Note 8 “Goodwill and Other Intangible Assets” to our consolidated financial statements for additional information.

Operating Loss

The operating loss reported for the current year improved by $59.8 million or 64.9% as compared to the prior year. Decreases within operating expenses, primarily due to the teach-out of campuses, initiatives to align expenses with the new organizational structure, changes in marketing strategies and implementation of efficiencies in our support functions instituted across the organization within academics, advertising and admissions have contributed to improvement in operating margins. The reductions in expenses were partially offset with $32.0 million of legal settlement charges. The prior year included asset impairment charges of $60.5 million related to trade name and fixed asset impairments within our Culinary Arts and Transitional Group segments as a result of the strategic decisions to teach-out all Career Schools.

(Benefit from) Provision for Income Taxes

For the year ended December 31, 2016, we recorded a tax benefit of $16.6 million which includes a $3.7 million benefit for a worthless stock deduction and a $2.1 million favorable tax adjustment related to the recent closure of a federal income tax audit, both of which decreased the effective tax rate by 11.9% and 6.7%, respectively. For the year ended December 31, 2015, we recorded a tax benefit of $147.5 million, primarily related to the reversal of $109.8 million related to a valuation allowance previously recorded against our deferred tax asset balances. An analysis was conducted during the fourth quarter of 2015 related to the realizability of the deferred tax assets and it was determined that it was more likely than not that these assets would be realized and therefore the valuation allowance recorded against those assets considered realizable was released.

Loss from Discontinued Operations

The results of operations for campuses that have been taught out or sold prior to 2015 are presented within discontinued operations. During 2016, we completed the teach-out of 13 campuses. These campuses do not meet the criteria to be reported as discontinued operations and as such they continue to be reported as part of the Transitional Group or Culinary Arts within continuing operations. The current year loss increased by $2.8 million primarily related to occupancy costs for lease contracts that continue to exist for closed campuses.

Year Ended December 31, 2015 as Compared to the Year Ended December 31, 2014

Revenue

Revenue for 2015 decreased 7.3% or $66.7 million driven by an overall 13.9% decline in total student enrollments. Excluding the Transitional Group and Culinary Arts, which are currently in teach-out, revenue for our ongoing

operations increased approximately 2.7% or $14.3 million primarily driven by an increase in new and total student enrollments for CTU. CTU experienced an increase in new and total student enrollments of 3.1% and 4.4%, respectively, due to optimization of marketing spend and investments in technology that focuses on student outcomes and retention.

Educational Services and Facilities Expense

The decrease in educational services and facilities expense for 2015 as compared to 2014 was primarily driven by lower academic costs within our Transitional Group, most notably faculty and bookstore costs as well as increased operational efficiencies. The decrease in occupancy expenses was driven by the decreased number of closures of campuses in 2015 versus 2014. As campuses cease operations, a charge is recorded at the cease use date which represents the net present value of all future remaining lease obligations offset with any estimated sublease income. The University Group experienced improvement in occupancy and academic costs as a percentage of revenue as we continue to closely monitor the variable costs while maintaining appropriate student-teacher ratios.

General and Administrative Expense

General and administrative expenses decreased for 2015 as compared to 2014 primarily due to decreases within administrative, advertising and admissions expenses. Administrative expense was lower as compared to 2014 primarily due to reductions associated with the teach-out of campuses and our continued focus to reduce costs throughout the organization. The lower advertising expense was driven by elimination of advertising on Career Colleges brands as a result of the strategic decision to teach-out our Career Colleges as well as decreased expense within our University Group related to efficiencies developed within certain marketing channels. Admissions costs have decreased primarily in salary and related expenses due to staffing adjustments made in response to the Transitional Group no longer enrolling new students.

Asset Impairment

During 2015, we recorded approximately $41.7 million and $18.8 million of long-lived asset and trade name impairment charges, respectively. The $41.7 million of long-lived asset impairment charges were primarily recorded within the Culinary Arts and Transitional Group segments to record these assets at their fair market value upon the announcement of teach-out. Approximately $17.0 million of trade name impairment was recorded within Culinary Arts related to the Le Cordon Bleu trade name and a $1.8 million trade name impairment was recorded within the Transitional Group.

Operating Loss

The operating loss reported for 2015 improved by $47.1 million or 33.8% as compared to 2014. Decreases within operating expenses, primarily due to the teach-out of Transitional Group campuses, initiatives to align expenses with the new organizational structure, changes in marketing strategies and implementation of efficiencies in our support functions instituted across the organization within academics, advertising and admissions have contributed to improvement in operating margins. 2015 included increased asset impairment charges related to trade name and fixed asset impairments within our Culinary Arts and Transitional Group segments as a result of the strategic decisions to teach-out all Career Schools.

(Benefit from) Provision for Income Taxes

For the year ended December 31, 2015, we recorded a tax benefit of $147.5 million, primarily related to the reversal of $109.8 million related to a valuation allowance previously recorded against our deferred tax asset balances. An analysis was conducted during the fourth quarter of 2015 related to the realizability of the deferred tax assets and it was determined that it was more likely than not that these assets would be realized and therefore the valuation allowance recorded against those assets considered realizable was released. Additionally, we recorded a tax benefit related to the 2015 losses. The 2014 tax provision of $3.7 million primarily related to discrete items for the closure of a federal tax audit for the years 2008 through 2012. As the Company determined that its deferred tax assets were not realizable as of 2014, a tax benefit was not recorded against the 2014 pretax losses.

Loss from Discontinued Operations

The results of operations for campuses that have been taught out or sold prior to 2015 are presented within discontinued operations. During 2015, the Company adopted new accounting guidance impacting the presentation of financial statements for discontinued operations, which limits the discontinued operations treatment if the group being sold or disposed of does not meet the definition of a strategic business shift. During 2015, we completed the teach-out of five Transitional Group campuses and sold Brooks Institute and Missouri College. These campuses do not meet the criteria to be reported as discontinued operations and as such they continued to be reported as part of the Transitional Group within continuing operations. The 2015 loss improved significantly from 2014 due to the teach-out of campuses being completed in prior years. The 2015 expenses primarily relate to occupancy costs for lease contracts

that continue to exist for closed campuses.

SEGMENT RESULTS OF OPERATIONS

Management assesses results of operations for ongoing operations separately from the Transitional Group and Culinary Arts. As a result, management's long-term operational strategies and initiatives are primarily focused on the University Group.

The following tables present segment results for the reported periods (dollars in thousands).

	For the Year Ended December 31,			2016 vs 2015	2015 vs 2014
	2016	2015	2014	% Change	% Change
REVENUE:					
CTU	$369,319	$348,215	$336,573	6.1 %	3.5 %
AIU	193,032	201,649	198,896	-4.3 %	1.4 %
Total University Group	562,351	549,864	535,469	2.3 %	2.7 %
Corporate and Other	-	157	230	NM	NM
Subtotal	562,351	550,021	535,699	2.2 %	2.7 %
Culinary Arts	104,452	170,190	172,606	-38.6 %	-1.4 %
Transitional Group	37,589	127,062	205,659	-70.4 %	-38.2 %
Total	$704,392	$847,273	$913,964	-16.9 %	-7.3 %
OPERATING INCOME (LOSS):					
CTU	$99,412	$87,496	$69,492	13.6 %	25.9 %
AIU [(1)]	(29,598)	5,520	(9,412)	-636.2 %	158.6 %
Total University Group	69,814	93,016	60,080	-24.9 %	54.8 %
Corporate and Other	(25,097)	(27,267)	(21,169)	8.0 %	-28.8 %
Subtotal	44,717	65,749	38,911	-32.0 %	69.0 %
Culinary Arts	(20,608)	(57,577)	(66,556)	64.2 %	13.5 %
Transitional Group	(56,453)	(100,340)	(111,627)	43.7 %	10.1 %
Total	$(32,344)	$(92,168)	$(139,272)	64.9 %	33.8 %
OPERATING INCOME (LOSS) MARGIN:					
CTU	26.9 %	25.1 %	20.6 %		
AIU [(1)]	-15.3 %	2.7 %	-4.7 %		
Total University Group	12.4 %	16.9 %	11.2 %		
Corporate and Other	NM	NM	NM		
Subtotal	8.0 %	12.0 %	7.3 %		
Culinary Arts	-19.7 %	-33.8 %	-38.6 %		
Transitional Group	-150.2 %	-79.0 %	-54.3 %		
Total	-4.6 %	-10.9 %	-15.2 %		

---

(1) The current year results include charges recorded for a $10.0 million legal settlement and $22.0 million in associated third party legal fees.

	As of December 31,			% Change	
				2016 vs.	2015 vs.
	2016	2015	2014	2015	2014
TOTAL STUDENT ENROLLMENTS:					
CTU	21,900	21,300	20,400	2.8 %	4.4 %
AIU	11,700	10,600	11,600	10.4 %	-8.6 %
Total University Group	33,600	31,900	32,000	5.3 %	-0.3 %
Culinary Arts	2,300	7,800	8,800	-70.5 %	-11.4 %
Transitional Group	700	3,500	9,400	-80.0 %	-62.8 %
Total	36,600	43,200	50,200	-15.3 %	-13.9 %

	For the Year Ended December 31,			% Change	
				2016 vs.	2015 vs.
	2016	2015	2014	2015	2014
NEW STUDENT ENROLLMENTS:					
CTU (1)	20,770	21,890	21,230	-5.1 %	3.1 %
AIU (1)	14,350	13,400	14,580	7.1 %	-8.1 %
Total University Group (1)	35,120	35,290	35,810	-0.5 %	-1.5 %
Culinary Arts (2)	990	7,470	9,350	-86.7 %	-20.1 %
Transitional Group (2)	90	3,260	9,100	-97.2 %	-64.2 %
Total	36,200	46,020	54,260	-21.3 %	-15.2 %

(1) New student enrollments were positively impacted by a change to how the Company records certain cancelled students. Excluding the impact of this change new student enrollments would have decreased 7.1% for CTU, increased 4.3% for AIU and decreased 2.8% for the University Group for the year ended December 31, 2016 as compared to the prior year.

(2) Teach-out campuses within the Transitional Group and Culinary Arts segments no longer enroll new students upon teach out effective date. For Culinary Arts, teach-outs announced in December 2015 were effective beginning after the January 2016 new enrollments. Students who re-enter after 365 days are reported as new student enrollments.

Year Ended December 31, 2016 as Compared to the Year Ended December 31, 2015

University Group. Current year revenue increased approximately $12.5 million or 2.3% driven by CTU. Current year revenue for our CTU segment was positively impacted by an increase in total student enrollment as compared to the prior year primarily due to increased student retention. Revenue for our AIU segment decreased $8.6 million or 4.3% as a result of the lower student enrollment during the first half of the year. AIU total student enrollments continue to improve as compared to 2015 due to optimization of the admissions model as well as an enhanced onboarding and orientation process which partially offset the decline in revenue.

Current year operating income for the CTU segment increased $11.9 million or 13.6% as compared to the prior year. The increase in revenue for the current year partially offset with an increase in bad debt expense, drove operating margin improvement for the CTU segment.

Current year operating loss for the AIU segment was $29.6 million as compared to operating income of $5.5 million in the prior year. The decrease in operating income is primarily driven by $32.0 million of legal settlements as well as a decrease in revenue.

Advertising expenses within both University segments decreased 5.9% or $9.8 million for the current year as compared to the prior year due to efficiencies across various marketing channels while maintaining application volume.

Culinary Arts. This segment includes our LCB campuses which were announced for teach-out during December 2015. See the “Campus Locations” table within Item 1, “Business,” for a listing of campuses. The decline in revenue as compared to 2015 is primarily a result of the decrease in total student enrollments. We expect revenue to continue to decline as compared to prior periods as campuses wind down their operations through 2017. Operating losses will increase as the operating expenses to support and serve our students will exceed the revenue from these students as they continue to graduate.

The operating loss improved by $37.0 million or 64.2% for the current year as compared to the prior year primarily due to decreases in advertising spend and impairment charges. Prior year asset impairment charges of $52.1 million relate to long-lived asset and trade name impairment charges.

Transitional Group. This segment includes our non-LCB campuses that are currently being taught-out. Twelve campuses completed their teach-out during 2016 and fourteen campuses remain. The current year decline in revenue as compared to the prior year resulted from the decision to teach-out campuses. We expect revenue to continue to decline compared to prior periods as campuses wind down their operations through 2018. Operating losses will increase as the operating expenses to support and serve our students will exceed the revenue from these students as they continue to graduate.

The operating loss within the Transitional Group improved $43.9 million or 43.7% in the current year as compared to the prior year. Decreases across most expense categories as a result of the wind down of operations were partially offset with additional occupancy costs as a result of lease obligations recorded at teach-out completion and early termination agreements signed during the current year. As we continue to wind down programs within our Transitional Group, certain fixed overhead expenses related to academics and administration will be able to be removed from the business.

Corporate and Other. This category includes unallocated costs that are incurred on behalf of the entire company. Corporate and Other operating loss improved by $2.2 million as compared to the prior year. The decrease in cost for the current year is primarily driven by reduced legal and insurance costs.

Year Ended December 31, 2015 as Compared to the Year Ended December 31, 2014

University Group. 2015 revenue increased approximately 2.7% driven by an increase in total student enrollments for CTU. 2015 revenue for our CTU segment was positively impacted by an increase in total student enrollment as compared to 2014 primarily due to optimization of marketing spend. AIU experienced a decline of 8.6% in total student enrollments as compared to 2014.

2015 operating income for the CTU segment increased $18.0 million or 25.9% as compared to 2014. The increase in revenue for 2015 as well as reductions in operating expenses, particularly within advertising and admissions expenses, drove operating margin improvement for the CTU segment. Advertising expenses at CTU were lower as compared to 2014 period due to increased optimization of marketing expenditures.

2015 operating income for the AIU segment improved $14.9 million or 158.6% as compared to 2014 operating loss of $9.4 million. The increase is primarily driven by an overall decrease in operating expenses and a slight increase in revenue. Most expense categories were lower when compared to 2014, including administration, academics and occupancy expenses.

Culinary Arts. This segment includes our LCB campuses which were announced for teach-out during December 2015. The slight decline in revenue as compared to 2014 is primarily a result of the decrease in total student enrollments.

The operating loss improved by $9.0 million for 2015 as compared to 2014 primarily due to increased impairment charges being more than offset with reductions in administrative, depreciation and occupancy expenses. Administrative expense for 2015 did not include corporate overhead allocations while these campuses were reported within discontinued operations through the twelve months of 2015. Occupancy expenses were lower in 2015 versus 2014 due to continued optimization of leased facilities. Additionally, depreciation expense was not recorded during 2015 as a result of the asset held for sale classification and in accordance with ASC Topic 360, which states that upon reclassification to be held and used, these assets were impaired to reflect their fair value at the date of reclassification. Asset impairment charges of $52.1 million in 2015 were recorded as a result of the decrease in fair value for these campuses. The decision, made during December 2015, to teach-out these campuses triggered the requirement to test for long-lived asset impairment upon the reclassification of these campuses to continuing operations. 2014 asset impairment charges of $19.2 million relate to $10.3 million and $8.9 million of long-lived asset and trade name impairment charges, respectively.

Transitional Group. This segment includes our non-LCB campuses that are currently being taught-out. The 2015 decline in revenue as compared to 2014 resulted from a decrease in total student enrollments at the beginning of the year and campuses no longer enrolling new students once a teach-out is announced.

The operating loss within the Transitional Group improved $11.3 million or 10.1% in 2015 as compared to 2014. Decreases across most expense categories as a result of the wind down of operations were partially offset with additional occupancy costs as a result of lease obligations recorded at teach-out completion and early termination agreements signed during 2015.

Corporate and Other. This category includes unallocated costs that are incurred on behalf of the entire company. Corporate and Other costs increased $6.1 million as compared to 2014. The increase in cost for 2015 is primarily driven by increased compensation costs related to the transition of a new CEO and 2014 expenses included a reduction of expense of $8.6 million related to an insurance recovery.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified the accounting policies and estimates listed below as those that we believe require management's most subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements which includes a discussion of these and other significant accounting policies.

Revenue Recognition

Our revenue, which is derived primarily from academic programs taught to students who attend our institutions, is generally segregated into two categories: (1) tuition and fees and (2) other. Tuition and fees represent costs to our students for educational services provided by our institutions. Our institutions charge tuition and fees at varying amounts, depending on the institution, the type of program and specific curriculum. A majority of our institutions bill students a single charge that covers tuition and required program materials, such as textbooks and supplies, which we treat as a single accounting unit. Generally, we bill student tuition, including those treated as a single accounting unit, at the beginning of each academic period, and recognize the tuition as revenue on a straight-line basis over either the academic term or program period, which includes any applicable externship period. The tuition earnings method is determined by the type of program a student is enrolled in. Typically, institutions that offer our culinary arts and our health programs earn tuition over the entire program while the remainder of our institutions earn tuition over each academic term. Certain institutions charge fees, such as technology fees and laboratory fees, for certain terms and/or programs. These fees are earned over the applicable term. The portion of tuition and fee payments received from students but not yet earned is recorded as deferred tuition revenue and reported as a current liability on our consolidated balance sheets, as we expect to earn these revenues within the next year. Deferred tuition revenue is stated net of outstanding student receivables on a student-by-student basis as of the end of the reporting period.

If a student withdraws from one of our institutions prior to the completion of the academic term or program period, we refund the portion of tuition and fees already paid that, pursuant to our refund policy and applicable federal and state law and accrediting agency standards, we are not entitled to retain. Generally, the amount to be refunded to a student is calculated based upon the period of time the student has attended classes and the amount of tuition and fees paid by the student as of their withdrawal date. These refunds typically reduce deferred tuition revenue and cash on our consolidated balance sheets as we generally do not recognize tuition revenue in our consolidated statements of (loss) income and comprehensive (loss) income until the related refund provisions have lapsed. Management reassesses collectability when a student withdraws from the institution and has unpaid tuition charges. Such unpaid charges do not meet the threshold of reasonably collectible and are recognized as revenue on a cash basis. This cash basis accounting which was adopted beginning in the fourth quarter of fiscal year 2014 did not have a material effect on the consolidated financial statements.

Allowance for Doubtful Accounts

We extend unsecured credit to a portion of the students who are enrolled at our institutions for tuition and certain other educational costs. Based upon past experience and judgment, we establish an allowance for doubtful accounts with respect to student receivables which we estimate will ultimately not be collectible. As such, our results from operations only reflect the amount of revenue that is estimated to be reasonably collectible. Our standard allowance estimation methodology considers a number of factors that, based on our collections experience, we believe have an impact on our credit risk and the realizability of our student receivables. Among these factors are a student’s status (in-school or out-of-school), anticipated funding source (third party, internal short-term and extended payment plans) and status of funding, whether or not an out-of-school student has completed his or her program of study, and our overall collections history.

We monitor our collections and write-off experience to assess whether or not adjustments to our allowance percentage estimates are necessary. Changes in trends in any of the factors that we believe impact the realizability of our student receivables, as noted above, or modifications to our credit standards, collection practices, and other related policies may impact our estimate of our allowance for doubtful accounts and our results from operations. Additionally, we monitor certain internal and external factors, including changes in our academic programs, as well as changes in the current economic, legislative and regulatory environments and the ability to complete the federal financial aid process with the student.

A one percentage point change in our allowance for doubtful accounts as a percentage of gross earned student receivables from continuing operations as of December 31, 2016 would have resulted in a change in pretax loss from continuing operations of $0.5 million during the year then ended.

Because a substantial portion of our revenue is derived from Title IV Programs, any legislative or regulatory action that significantly reduces the funding available under Title IV Programs, or the ability of our students or institutions to participate in Title IV Programs, would likely have a material adverse effect on our business, results of operations, cash flows and financial condition, including the realizability of our receivables.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of cost over fair market value of identifiable net assets acquired through business purchases. In accordance with FASB ASC Topic 350 – Intangibles-Goodwill and Other, we review goodwill for impairment on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill, we must make assumptions regarding the fair value of our reporting units, as defined under FASB ASC Topic 350. Goodwill is evaluated using a two-step impairment test at the reporting unit level. A reporting unit can be a strategic business unit or business within a strategic business unit. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by a

combination of income and market approach valuation methodologies. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of goodwill.

In performing our annual review of goodwill balances for impairment, we estimate the fair value of each of our reporting units based on projected future operating results and cash flows, market assumptions and/or comparative market multiple methods. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, relative market share, new student interest, student retention, future expansion or contraction expectations, amount and timing of future cash flows and the discount rate applied to the cash flows. Projected future operating results and cash flows used for valuation purposes do reflect improvements relative to recent historical periods with respect to, among other things, modest revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions. These assumptions could be adversely impacted by certain of the risks discussed in Item 1A, "Risk Factors," in this Annual Report on Form 10-K.

Indefinite-lived intangible assets include our CTU trade name and accreditation rights, which were recorded at fair market value upon acquisition and subsequently reviewed on an annual basis for impairment. Accreditation rights represent the ability of our institutions to participate in Title IV Programs.

We did not record any goodwill impairment charges during the year ended December 31, 2016. The reporting units with remaining goodwill as of December 31, 2016 are AIU and CTU which together had $87.4 million of goodwill remaining. The fair values of our AIU and CTU reporting units exceeded their carrying values by $18.2 million and $378.0 million (fair value as a percentage of carrying value for these reporting units of 146% and 814%), respectively, and thus did not indicate a risk of goodwill impairment based on current projections and valuations.

See Note 8 "Goodwill and Other Intangible Assets" to our consolidated financial statements for further discussion.

Impairment of Long-Lived Assets

We review property and equipment, definite-lived intangible assets, and other long-lived assets for impairment on an annual basis or whenever adverse events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If such adverse events or changes in circumstances occur, we will recognize an impairment loss if the undiscounted future cash flows expected to be generated by the assets are less than the carrying value of the related assets. The impairment loss would reduce the carrying value of the assets to their estimated fair value.

In evaluating the recoverability of long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the estimated fair value of such assets. If our fair value estimates or related assumptions change in the future, we may be required to record impairment charges related to long-lived assets and definite-lived intangible assets. See Note 6 "Property and Equipment" to our consolidated financial statements for further discussion of long-lived asset impairment considerations and related charges.

Contingencies

During the ordinary course of business, we are subject to various claims and contingencies. In accordance with FASB ASC Topic 450 – Contingencies, when we become aware of a claim or potential claim, we assess the likelihood of any related loss or exposure. The probability of whether an asset has been impaired or a liability has been incurred, and whether the amount of loss can be reasonably estimated, is analyzed, and if the loss contingency is both probable and reasonably estimable, then we accrue for costs, including direct costs incurred, associated with the loss contingency. If no accrual is made but the loss contingency is reasonably possible, we disclose the nature of the contingency and the related estimate of possible loss or range of loss if such an estimate can be made. For all matters that are currently being reviewed, we expense legal fees, including defense costs, as they are incurred. Loss contingencies include, but are not limited to, possible losses related to legal proceedings and regulatory compliance matters, and our assessment of exposure requires subjective assessment. Liabilities established to provide for contingencies are adjusted as further information develops, circumstances change, or contingencies are resolved. See Note 11 “Contingencies” for additional information.

Income Taxes

We are subject to the income tax laws of the U.S. and various state, local and foreign jurisdictions. These tax laws are complex and subject to interpretation. As a result, significant judgments and interpretations are required in determining our income tax (benefits) provisions and evaluating our uncertain tax positions.

We account for income taxes in accordance with FASB ASC Topic 740 – Income Taxes. Topic 740 requires the recognition of deferred income tax assets and liabilities based upon the income tax consequences of temporary differences between financial reporting and income tax reporting by applying enacted statutory income tax rates applicable to future years to differences between the financial statement carrying amounts and the income tax basis of existing assets and liabilities. Topic 740 also requires that deferred income tax assets be reduced by a valuation allowance if it is more likely than not that some portion of the deferred income tax asset will not be realized.

In assessing the need for a valuation allowance and/or release of a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. Topic 740 provides that important factors in determining whether a deferred tax asset will be realized are whether there has been sufficient taxable income in recent years and whether sufficient taxable income is expected in future years in order to utilize the deferred tax asset. In evaluating the realizability of deferred income tax assets, we consider, among other things, historical levels of taxable income along with possible sources of future taxable income, which include: the expected timing of the reversals of existing temporary reporting differences, the existence of taxable income in prior carryback year(s), the expected impact of tax planning strategies that may be implemented to prevent the potential loss of future income tax benefits, expected future taxable income and earnings history exclusive of the loss that created the future deductible amount, coupled with evidence indicating the loss is not a continuing condition. Changes in, among other things, income tax legislation, statutory income tax rates, or future taxable income levels could materially impact our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, we record a valuation allowance, or release all or a portion of the valuation allowance if it is more likely than not the deferred tax assets are expected to be realized. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. A high degree of judgment is required to determine if, and the extent to which, valuation allowances should be recorded against deferred tax assets.

Topic 740 further clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

As of December 31, 2016, cash, cash equivalents, restricted cash and available-for-sale short-term investments totaled $207.2 million. Restricted cash and investment balances as of December 31, 2016 approximate $10.0 million and include restricted short-term investments for certificates of deposit in addition to restricted cash to provide securitization for letters of credit. Our cash flows from operations have historically been adequate to fulfill our liquidity requirements. We have historically financed our operating activities, organic growth and acquisitions primarily through cash generated from operations, existing cash balances and credit facility borrowings. The recent losses from our Transitional Group and Culinary Arts campuses and associated lease payments for vacated spaces have driven a net cash usage in recent years. However, as we execute on our transformation strategy and complete the wind-down of our teach-out campuses, we expect our cash usage to moderate through the remainder of 2017 and to begin generating cash in 2018. We expect to end 2017 with cash, cash equivalents, restricted cash and available-for-sale short-term investments, net of borrowings, in the range of $150 million to $160 million. This range for 2017 includes payments for a $10.0 million legal settlement and $22.0 million of associated third party legal fees

recorded during 2016. These expectations are based upon, and subject to the key assumptions and factors discussed above in this MD&A under the heading "Outlook." We anticipate that we will be able to satisfy the cash requirements associated with, among other things, our working capital needs, capital expenditures and lease commitments through at least the next 12 months primarily with cash generated by operations and existing cash balances.

Our credit facility allows us to borrow up to a maximum amount of $95 million and is scheduled to mature on December 31, 2018. Amounts borrowed under the Credit Agreement are required to be secured with 100% cash collateral.

The discussion above reflects management's expectations regarding liquidity; however, we are not able to assess the effect of loss contingencies on future cash requirements and liquidity. See Note 11 "Contingencies" to our consolidated financial statements. Further, as a result of the significance of the Title IV Program funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV funds that our students are eligible to receive or any impact on timing or our ability to receive Title IV Program funds, or any requirement to post a significant letter of credit to ED, may have a significant impact on our operations and our financial condition. In addition, our financial performance is dependent on the level of student enrollment which could be impacted by external factors. See Item 1A, "Risk Factors."

Sources and Uses of Cash

Operating Cash Flows

During the year ended December 31, 2016, net cash flow provided by operating activities totaled $5.9 million as compared to net cash used of $21.7 million during the year ended December 31, 2015. The improvement in cash flow from operations as compared to the prior year is primarily driven by lower operating losses at our teach-out campuses and improved operating performance within the University Group.

Our primary source of cash flows from operating activities is tuition collected from our students. Our students derive the ability to pay tuition costs through the use of a variety of funding sources, including, among others, federal loan and grant programs, state grant programs, private loans and grants, institution payment plans, private and institutional scholarships and cash payments. For the years ended December 31, 2016, 2015 and 2014, approximately 76%, 77% and 78%, respectively, of our institutions' cash receipts from tuition payments came from Title IV Program funding.

For further discussion of Title IV Program funding and alternative private loan funding sources for our students, see Item 1, "Business - Student Financial Aid and Related Federal Regulation."

Our primary uses of cash to support our operating activities include, among other things, cash paid and benefits provided to our employees for services, to vendors for products and services, to lessors for rents and operating costs related to leased facilities, to suppliers for textbooks and other institution supplies, and to federal, state and local governments for income and other taxes.

Investing Cash Flows

During the year ended December 31, 2016, net cash used in investing activities totaled $34.4 million as compared to net cash used in investing activities of $8.0 million for the year ended December 31, 2015.

Purchases and Sales of Available-for-Sale Investments. Purchases and sales of available-for-sale investments resulted in a $33.8 million net cash outflow and a $6.8 million net cash inflow during the years ended December 31, 2016 and 2015, respectively.

Capital Expenditures. Capital expenditures decreased to $4.1 million for the year ended December 31, 2016 as compared to $11.7 million for the year ended December 31, 2015. Capital expenditures represented approximately 1.0% of total revenue during the years ended December 31, 2016 and 2015. We expect similar capital expenditures during 2017 as compared to 2016.

Proceeds on the sale of assets. During 2016, we received $3.6 million related to the sale of property and equipment, of which $3.4 million was previously recorded as a receivable within receivables, other, on our consolidated balance sheet as of December 31, 2015. The sale of property at one of our campuses resulted in net proceeds of $2.3 million for the year ended December 31, 2015.

Payments of cash upon sale of assets. In connection with the sale of our Brooks Institute and Missouri College campsuses, we made payments of approximately $0.1 million and $4.0 million during the years ended December 31, 2016 and 2015, respectively.

Financing Cash Flows

During the years ended December 31, 2016 and 2015, net cash flows provided by financing activities totaled $11.2 million and $2.5 million respectively.

Credit Agreement. On December 11, 2015, we entered into a $95.0 million Amended and Restated 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. The revolving credit facility under the Credit Agreement is scheduled to mature on December 31, 2018 and amended our previous credit agreement entered into on October 31, 2014. Amounts borrowed under the Credit Agreement are required to be secured with 100% cash collateral. The Credit Agreement, which includes certain financial covenants, requires that fees and interest are payable monthly and quarterly in arrears, respectively, and principal is payable at maturity. During the first quarter of 2016, we repaid the $38.0 million which was borrowed under the revolving credit facility under the Credit Agreement during 2015. As of December 31, 2016, we have no outstanding borrowings under the revolving credit facility and we remain in compliance with the covenants of the Credit Agreement. See Note 10 “Credit Agreement” to our consolidated financial statements for additional information.

Restricted Cash. As of December 31, 2016 and 2015, we had approximately $10.0 million and $49.8 million, respectively, of restricted cash related to collaterization of borrowings under our Credit Agreement and certificates of deposit to secure outstanding letters of credit.

Contractual Obligations

As of December 31, 2016, future minimum cash payments due under contractual obligations for our non-cancelable operating lease arrangements were as follows (dollars in thousands):

	2017 [4]	2018	2019	2020	2021 & Thereafter	Total
Gross operating lease obligations [1]						
CTU	$1,580	$1,627	$1,678	$1,738	$ 679	$7,302
AIU	5,715	5,791	5,928	3,074	1,692	22,200
Total University Group	7,295	7,418	7,606	4,812	2,371	29,502
Corporate and Other	4,866	4,951				