

CAREER EDUCATION CORP
Form 10-K
February 29, 2016

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, 2015

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

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

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

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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 Smaller reporting company
(Do not check if a 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 \$3.30 per share closing sale price of the Registrant's common stock on June 30, 2015 (the last business day of the Registrant's most recently completed second quarter), was approximately \$217,000,000. 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 19, 2016, the number of outstanding shares of Registrant's common stock was 68,098,641.

Portions of the Registrant's Notice of Annual Meeting and Proxy Statement for the Registrant's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

CAREER EDUCATION CORPORATION

FORM 10-K

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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” 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 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 hybrid learning programs. Our two universities – American InterContinental University (“AIU”) and Colorado Technical University (“CTU”) – provide degree programs through the master’s or doctoral level as well as associate and bachelor’s levels. Both universities predominantly serve students online with career-focused degree programs that are designed to meet the educational demands of today’s busy adults. AIU and CTU continue to show innovation in higher education, advancing new personalized learning technologies like their intellipath™ adaptive learning platform that allow students to more efficiently pursue earning a degree by receiving course credit for knowledge they can already demonstrate. 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 May 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 closing our remaining Career School campuses through a gradual teach-out process.

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, 2015 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 employment and of employers for a well-educated workforce and offers academic programs in the career-oriented disciplines of business studies, information systems and technologies, criminal justice, computer science and engineering, and health sciences. Students pursue their degrees through fully-online programs through CTU Online, local campuses and blended formats, which combine campus-based and online education. As of December 31, 2015, students enrolled at CTU represented approximately 49% 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 offers academic programs in the career-oriented disciplines of business studies, information technologies, criminal justice and design technologies. Students pursue their degrees through fully-

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online programs through AIU Online, local campuses and blended formats, which combine campus-based and online education. As of December 31, 2015, students enrolled at AIU represented approximately 25% of our total enrollments. Approximately 92% of AIU's enrollments are fully online.

Career Schools Group:

Campuses included in our Career School 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 in 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. LCB also provides online programs in culinary arts and hotel and restaurant management. These campuses are expected to complete their teach-out activities primarily during 2017. As of December 31, 2015, students enrolled at LCB represented approximately 18% of our total enrollments.

Our LCB campuses were previously recorded as an asset held for sale within discontinued operations as of December 31, 2014. As a result of the decision made during December 2015 to teach-out our LCB campuses, they are now reported as part of continuing operations within the Culinary Arts segment.

“Transitional Group includes our non-LCB campuses which are in teach-out or those which have been closed or sold subsequent to January 1, 2015. Our Transitional Group offers academic programs primarily in the career-oriented discipline of health education complemented by certain programs in business studies and information technology, as well as fashion design, film and video production, graphic design, interior design and visual communications. The campuses within the Transitional Group that have not yet ceased operations as of December 31, 2015 will complete their teach-outs on varying dates through 2018. As of December 31, 2015, students enrolled at the Transitional Group campuses represented approximately 8% of our total enrollments.

During 2015 we completed the sale of two colleges, Brooks Institute and Missouri College, and completed the teach-out of five 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, which limits discontinued operations reporting effective January 1, 2015.

All prior period results have been recast to reflect our reporting segments on a comparable basis.

Revenues, operating income (loss) and total assets by reporting segment for each of the past three fiscal years are included in Note 18 “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 29, 2016 are summarized in the table below. Campuses that ceased operations prior to February 29, 2016 are not included.

Colleges and Universities, Campus Locations	Website
AMERICAN INTERCONTINENTAL UNIVERSITY ("AIU"):	www.aiuniv.edu
AIU Atlanta, Atlanta, GA	
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	
LCB St. Louis, St. Peters, MO	

Colleges and Universities, Campus Locations	Website
TRANSITIONAL GROUP:	
Briarcliffe College	www.briarcliffe.edu
Briarcliffe College (includes Online), Bethpage, NY	
Briarcliffe College, Patchogue, NY	
Collins College, Phoenix, AZ	www.collinscollege.edu
Colorado Technical University	www.coloradotech.edu
CTU Sioux Falls, Sioux Falls, SD	
Harrington College of Design, Chicago, IL	www.harrington.edu
International Academy of Design & Technology ("IADT")	www.iadt.edu
IADT Detroit, Troy, MI	
IADT Sacramento, Sacramento, CA	
Sanford-Brown College and Institute ("SBC" and "SBI"):	www.sanfordbrown.edu
SBC Atlanta, Atlanta, GA	
SBC Brooklyn Center, Brooklyn Center, MN	
SBC Chicago, Chicago, IL	
SBC Dallas, Dallas, TX	
SBC Fort Lauderdale, Fort Lauderdale, FL	
SBC Houston, Houston, TX	
SBC Jacksonville, Jacksonville, FL	
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	
SBI Garden City, Garden City, NJ	
SBI Iselin, Iselin, NJ	
SBI New York, New York City, NY	
SBI Campus - an affiliate of Sanford-Brown, Melville, NY	www.sbmelville.edu

INDUSTRY BACKGROUND AND COMPETITION

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, 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 7,300 Title IV eligible postsecondary education institutions in the United States for the academic year 2014-15, including approximately 3,400 proprietary schools; approximately 2,000 public, non-profit schools; and approximately 1,900 private, non-profit schools. According to the U.S. Department of Education ("ED" or "the Department"), over the 12-month period July 1, 2013 through June 30, 2014 approximately 28 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: Apollo Education Group, Inc., Bridgepoint Education, Inc., Capella Education Company, DeVry Education Group Inc., Grand Canyon Education, Inc., ITT Educational Services, Inc., Kaplan, Inc. (a division of the Graham Holdings Company) 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.

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 campuses 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 accreditors 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 have 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, 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 we refer to as intellipath.TM 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. 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 and net income (loss) by quarter for each of the past two fiscal years are included in Note 19 “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 addressing near-term demands for higher education with a career focus, while continuing to build the capabilities necessary to deliver sustainable 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.

Promoting interest with prospective students and building excitement about our institutions and a career path that they can follow is key to the future success of our institutions. We continue to refine and reinvent the ways in which we identify, attract and enroll students. We have begun using enhanced new student orientation courses, which are conducted online for students planning to take courses online, as well as those enrolling at ground campuses. The online orientation courses, which include our innovative intellipathTM adaptive learning platform, aim to improve our incoming students’ experiences as they adjust to higher education, giving them resources and offering tips to help them hit the ground running so they have the right tools and are confident they can succeed. By offering a more enhanced

and engaging orientation, this new approach offers students a better opportunity to become acclimated with their new school and determine whether it's the right fit for them. This is in keeping with our desire to make sure students are comfortable they are making the right decision by enrolling in one of our institutions.

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 national 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.

Lastly, creating a financially stable platform with which to grow our University institutions aligns student interests with stockholder value. Our recent and continued transformation efforts have given us the tools needed 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.

Student Enrollment and Education

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 and post-graduation employment rates, 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, such as obtaining certain minimum scores on assessment examinations.

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

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 implementation of our intellipath adaptive learning technology, are designed to assist our students to remain in school and succeed.

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.

Student Enrollment Statistics

Our total student enrollment as of December 31, 2015 and 2014 was approximately 43,200 students and 50,200 students, respectively. Included in total student enrollment were approximately 31,900 students and 32,000 students, respectively, for our University institutions, with approximately 29,200 students and 28,900 students, respectively, enrolled in our University Group fully-

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online academic programs. Related student enrollment demographic information for our University Group as of December 31, 2015 and 2014 was as follows:

University Group Student Enrollment by Age Group

	As a Percentage of Total University Group Student Enrollment as of December 31,			
	2015		2014	
Over 30	63	%	64	%
21 to 30	35	%	34	%
Under 21	2	%	2	%

University Group Student Enrollment by Core Curricula

	As a Percentage of Total University Group Student Enrollment as of December 31,			
	2015		2014	
Business Studies	73	%	75	%
Information Technology	14	%	14	%
Health Education	12	%	10	%
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,			
	2015		2014	
Doctoral and Master's Degree	13	%	13	%
Bachelor's Degree	69	%	67	%
Associate Degree	18	%	20	%

Student Academics

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 curricula, engaging instructional delivery, qualified faculty and accessible student support services.

Curriculum

Our colleges, institutions and 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, criminal justice, computer science and engineering, culinary arts, health science and health education.

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 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.

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.

CTU and AIU have 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, helping them connect with the university and remain on track with their course of study.

Library Services

Campus-based and online students have access to the Cybrary, a collection of electronic resources that has been developed to support the curricula offered by each CEC institution. All campus-based and online students have access to a team of reference librarians and students may request assistance through instant messaging, telephone or email. The online library resources and services exist to extend and enhance those resources and services that are provided on physical campuses as well as to support fully online students.

Faculty

CEC employs more than 3,250 credentialed, geographically disbursed, full-time and adjunct faculty who facilitate learning in our classrooms, kitchens, labs, studios and virtual classrooms. Our faculty are hired, assigned, developed and evaluated in compliance with current accepted higher education practice 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.

Although faculty members will always serve as the primary point of contact, students may also engage the assistance of tutors and academic advisors. Students have access to technical support 24 hours a day, seven days a week.

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);

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- 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.

Faculty Development

Instructors are required to participate in faculty development activities each year as part of the continuous improvement process. The objective of faculty development is to increase proficiency in each of the instructor competencies. Performance strength and opportunities guide the selection of faculty development activities. Campuses typically provide locally developed in-service professional development activities for their own faculty. We also provide faculty with interactive content, available in an asynchronous format, in areas such as teaching methodology, instructional practice, classroom management, outcomes assessment and student retention.

In 2015, certain of our campuses participated in an Educator of the Year recognition program. The program is designed to showcase faculty members who developed and implemented creative and innovative approaches to meet the needs of their students as well as participated in building notable community relationship/partnerships. This year, the focus of the recognition programs were: influencing student success, teaching excellence and innovation and community service/partnership.

CEC's recognition of outstanding faculty acknowledges our belief that the quality of the interaction between the instructor and the student is central to providing our student with a high quality learning experience.

Employees

As of December 31, 2015, we had a total of 6,687 employees, including 564 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	Total
CTU	630	6	64	41	1,204	1,945
AIU	552	8	67	54	594	1,275
Total University Group	1,182	14	131	95	1,798	3,220
Corporate and Other	850	20	-	-	-	870
Culinary Arts	497	2	219	292	219	1,229
Transitional Group	290	10	214	108	746	1,368
Total employees	2,819	46	564	495	2,763	6,687

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. All of our campuses are accredited by accrediting agencies recognized by ED.

Campuses in our University Group are accredited by The Higher Learning Commission (www.hlcommission.org). American InterContinental University's next re-affirmation of accreditation is scheduled for 2023-24, with its next comprehensive evaluation in

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2017-18. Colorado Technical University’s next re-affirmation of accreditation is scheduled for 2022-23, with its next comprehensive evaluation in 2016-17.

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 regulator 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.

Institution, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Accreditor ⁽¹⁾
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; Seattle, WA; and St. Peters, MO)	ACICS
Pasadena, CA	ACICS
Portland, OR (Tucker, GA and Mendota Heights, MN)	ACICS
San Francisco, CA	ACCSC/ACICS
Scottsdale, AZ (includes Online) (Cambridge, MA; Las Vegas, NV; and Miramar and Orlando, FL)	ACCSC/ACICS
Le Cordon Bleu College of Culinary Arts in Chicago	
Chicago, IL	HLC
Sanford-Brown College	
Atlanta, GA (Ft. Lauderdale, FL; Houston, TX; and Sanford-Brown Institute, New York, NY)	ACICS
Chicago, IL (IADT Detroit, Troy, MI and Collins College, Phoenix, AZ)	ACICS
Dallas, TX (Sanford-Brown Institute, Garden City, NY)	ACICS
Jacksonville, FL (Sanford-Brown Institute, Iselin, NJ)	ACICS
Mendota Heights, MN (Brooklyn Center, MN)	ACICS
Tampa, FL (Orlando, FL; Henderson, NV; San Antonio, TX; Seattle, WA; Online; and IADT Sacramento, Sacramento, CA)	ACICS
SBI Campus—an Affiliate of Sanford-Brown	
Melville, NY	ACICS

(1)Below is a key to the accreditation abbreviations used in the table above:

- a. ACCSC – Accrediting Commission of Career Schools and Colleges
- b. ACICS – Accrediting Council for Independent Colleges and Schools
- c. MSCHE – Middle States Association Commission on Higher Education
- d. 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.

Career Education pursues 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.

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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 Online; Colorado Technical University: Colorado Springs, Denver, Online and Sioux Falls	Business
Commission on Collegiate Nursing Education	Colorado Technical University Online	Nursing
Council for the Accreditation of Educator Preparation	American InterContinental University Online	Education
Council for Interior Design Accreditation	American InterContinental University, Atlanta	Interior design
Project Management Institute Global Accreditation Center	Colorado Technical University: Colorado Springs, Denver, Online and Sioux Falls	Project management

(1) Status as of February 15, 2016.
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 are located, and our online institutions are also subject to regulation in certain other states in which they enroll and/or recruit students. 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, 2016, 36 states are SARA participants with additional states moving towards applying for membership (www.nc-sara.org). During 2015, AIU and CTU were 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.

In the past, ED has sought to increase state oversight imposed on Title IV participating institutions providing distance learning by conditioning Title IV participation for students residing in a state on whether that state maintained acceptable oversight of each institution. The enforceability of these regulations was successfully challenged in court and ED has subsequently delayed plans for re-issuing revised regulations addressing multi-state approval of distance learning programs.

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 13 “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 2015 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 Transitional Group campuses in New York are all 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.

Direct Loans are loans made to our students directly from the federal government. 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 Subsidized / Unsubsidized 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.

The Federal Perkins Loan Program (“Perkins Loans”) is made from a revolving institutional Federal Perkins Fund account. The federal and institutional percentages of that account were determined by legislation in place at the time the institution received federal allocations. The educational institution’s contribution was at least one-third of the Federal Capital Contribution from ED. Each institution is responsible for award determination, disbursements, collections and servicing of the Federal Perkins Loans. Currently, only CTU participates in the Federal Perkins Loan program. This program initially sunset on September 30, 2015; however, President Obama recently signed legislation extending the life of the program. This program is now scheduled to end by September 30, 2017.

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 2015-16 maximum annual Pell Grant is \$5,775. 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.

Veteran’s 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, President Obama signed the Post-9/11 Veterans Educational Assistance Improvements Act of 2010 (“Improvements Act”) which amends the Post-9/11 GI Bill in several pertinent 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, and it replaces the state-dependent benefit cap with a single national cap which is adjusted annually and as of August 1, 2015 is \$21,085. 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. In March 2012, the Department of Veteran Affairs changed the Yellow Ribbon Agreement to an open ended agreement.

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. Institutions were required to sign the MOU by March 30, 2012. After March 1, 2013 institutions without a signed DoD MOU cannot enroll service members under the tuition assistance program until they have signed the MOU. Our institutions utilizing tuition assistance have signed 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, our institutions utilizing tuition assistance signed DoD's revised MOU.

2012 Executive Order Regarding Military and Veterans Education Benefits

On April 27, 2012, President Obama 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.

Alternative Student Financial Aid Sources

A financial institution providing a non-recourse loan assumes 100% of the credit risk on the loan. The student, or the student and a co-borrower, must meet the credit criteria established by the financial institution to receive these loans. Each financial institution establishes its own credit criteria and loan limits. Students and co-borrowers generally can borrow an amount equal to the student's cost of attendance less all other financial aid received. Currently, with the exception of a few regional markets, non-recourse loans are not available to students attending our institutions. In addition, CEC does not participate in any recourse loan programs. In November of 2012, Sallie Mae discontinued offering new non-recourse private student loans to students attending our institutions. Sallie Mae has committed, however, to providing access to private loans for students actively attending such that they could continue to receive funding through the remainder of their program. Less than 0.1% of our 2015 cash receipts came from private lending sources. We anticipate a similar amount of our 2016 cash receipts will come from these sources.

Due to tightening lending standards, in 2008 we started offering funding alternatives for eligible students in place of a recourse program that had previously been provided by Sallie Mae. We decided to provide extended payment plans directly to certain students to ensure that they could finish their current educational programs with us and to allow new students the opportunity to attend our institutions. In early 2011, we discontinued our internal extended financing program. As of December 31, 2015, we have approximately \$2.2 million outstanding related to our extended payment plan programs as reflected in our current and non-current student receivables, net of allowance for doubtful accounts, on our consolidated balance sheet.

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 in the recertification process and are, therefore, operating on month-to-month continuing program participation agreements. Many have been operating on a month-to-month basis for some time, pending ED taking action on timely submitted recertification applications. In addition, several of our Career School institutions which are in teach-out are currently on provisional certification. 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.

We expect that this challenging regulatory environment will continue for the foreseeable future. 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, the President and various state and federal governmental agencies have resulted in adverse publicity and increased regulatory burdens and costs, and this trend may continue or intensify."

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.

By law, the Higher Education Act must be reauthorized by Congress every five years. The last full reauthorization took place in 2008, which means that the next reauthorization was due in 2013. Congress failed to pass an on-time reauthorization bill; therefore an automatic one-year extension to December 2014 was established. In late 2014, Congress passed an extension to further delay reauthorization. Congress must continue to pass legislation to extend the Act until a reauthorization can occur. 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. Already we have seen legislation introduced that is focused on simplifying both access to and repayment of Title IV funds. Simplifying the federal student aid programs and reducing the complexity of repayment should be of benefit to our students. However, 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.

Program Integrity and Improvement

In recent years, ED has engaged in rulemaking discussions 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 reserve, 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 adverse impact on our overall bad debt expense and certain regulatory metrics; however, at this time, we are unable to predict the magnitude of the impact. The new 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 will require CEC to adjust the method in which we provide refund options to our students. In addition, ED provides clarification on specific instances where schools may include (or bundle) the cost of books and supplies with tuition charges. To continue this practice, institutions must have a cost effective arrangement with a publisher for students to receive books and supplies at or below market cost, provide a way for students to obtain books and supplies by the seventh day of the term and include a way for a student to 'opt out' of the institution's method for receiving books and supplies. We are reviewing our current bundling practices and evaluating whether they meet these criteria. Any required changes may impact our reported revenue; however, at this time, we are unable to quantify the potential impact. These regulations will be 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 13 "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, 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 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, with the assistance of an external accounting firm, it 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.

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 to address gainful employment in a recognized occupation, and on October 30, 2014, ED published a new complex final regulation, effective July 1, 2015, to define "gainful employment," a term used in the Higher Education Act which historically has not been 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 years, or that either fail or are in the zone for three out of four 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 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 substitute for the average debt of the measurement cohort the average debt of the most recent graduating cohort. Earnings are based on data to be provided by the Social Security Administration. Institutions will have an opportunity to review and correct the list of students who will be submitted to the Social Security Administration for the earnings query, but will not have an opportunity to inspect, review, question or appeal the results provided.

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

The new regulation includes significant new disclosure requirements and creates additional certifications to which the chief executive officer 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.

We believe that certain of our culinary arts and art & design programs that are in teach-out have the greatest risk of losing Title IV eligibility under the new gainful employment eligibility test, and that our programs within our University segments are more likely to pass. However, we are closely monitoring a few programs within our University Group that we believe will be close to the regulatory thresholds for passing and we are working to launch new programs within our University business that we believe are likely to have positive gainful employment outcomes. There can be no assurance that our 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 regulations 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; counseling students to carefully evaluate the amount of necessary Title IV Program borrowing; and, for certain campuses, increasing the level of accredited non-Title IV Programs in our institutions.

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 2015 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.

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.

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In September 2015, ED released the official three-year cohort default rates for the 2012 cohort. For the 2012 cohort, no CEC institution had official rates in excess of the 30% threshold, including our Career Schools which are in teach-out. A listing of the official 2012, 2011 and 2010 three-year cohort default rates, for our universities is provided in the table below.

Institution, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Cohort Default Rates		
	3-year rate		
	2012	2011	2010
American InterContinental University			
Schaumburg, IL (Online) (Atlanta, GA and Houston, TX)	17.7%	21.0%	23.2%
Colorado Technical University			
Colorado Springs, CO (Denver, CO; Sioux Falls, SD; and Online)	17.7%	19.4%	22.8%

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, 2014 was 1.5, and our preliminary calculation for the year ended December 31, 2015 is 1.7, which are considered financially responsible without conditions or additional oversight. Our financial responsibility ratio for 2015 benefits 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, 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 registration 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 registration 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 registration 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 income (loss) and comprehensive income (loss) 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, 2015, 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 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, the President and various state and federal governmental agencies have resulted in adverse publicity and increased regulatory burdens and costs, and this trend may continue or intensify.

We and other for-profit postsecondary education providers have been subject to increased regulatory scrutiny and litigation in recent years. State attorneys general, ED, the President, 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 are likely to be adverse to postsecondary institutions generally or for-profit institutions specifically. Various groups continue to actively lobby state and federal regulators to adopt stringent rules selectively targeting for-profit institutions. 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 or regulations that limit our institutions' ability to attract new students or that reduce funding for federal student financial aid programs or the ability of our institutions or students to participate in these programs could have a material adverse effect on our student population and revenue. 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, 2015, approximately 90% 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 \$622 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;

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- 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 rulemaking could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

In addition to the new gainful employment regulation discussed in a risk factor below, the U.S. Department of Education 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, known as the program integrity rules, 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 may adopt debt forgiveness regulations that could lead to liability for amounts based on borrower defenses or affect ED's assessment of our institutional capability.

ED has received claims from current and former students of for-profit education institutions seeking loan forgiveness. These students claim that they are legally entitled to such relief based on, among other things, allegations that their school engaged in unlawful conduct with respect to its administration of Title IV Programs. On August 20, 2015, ED

announced its intention to establish a negotiated rulemaking committee to develop proposed regulations (collectively, the “Debt Forgiveness Regulations”) for determining the criteria ED will use to identify acts or omissions of an institution that constitute defenses to repayment of Direct Loans, and standards and procedures to determine liability of an institution for amounts based on borrower defenses. The committee will also propose rules to determine the effect that borrower defenses to loan repayment may have on ED’s assessment of institutional capability. We cannot predict the timing or outcome of this rulemaking process or how any such resulting rules would be enforced. Should ED adopt rules proposed by the negotiated rulemaking committee, or rules in furtherance of the objectives of the rulemaking committee, they may include rules that serve as a basis for recovery of losses arising from loan forgiveness from Title IV participating institutions. Depending on the processes and standards that may be adopted by ED in the Debt Forgiveness Regulations, which we cannot predict at this time, the outcome of any legal proceeding instituted by a private party or governmental authority or the facts

asserted therein could collaterally serve as the basis for liability for amounts based on borrower defenses or the termination of eligibility to participate in Title IV Programs based on ED's institutional capability assessment. Such liability or termination of eligibility could have a material adverse effect on our business and financial condition and result in the imposition of significant restrictions on us and our ability to operate.

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.

There can be no assurance that the Company's efforts to mitigate the impact of the regulation will 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 confidently offer or 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, persistence and retention. We are closely monitoring a few programs within our University Group that we believe will be close to the regulatory thresholds for passing.

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.

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 there is no assurance that they will 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.

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 the past few years. Our financial responsibility ratio for 2015 benefits 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, 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. There can be no assurance that the Company will remain 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. 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 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.

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 remaining OPEIDs are currently in the process of seeking recertification from ED. We have submitted necessary documentation for recertification and 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 currently in recertification, which could negatively impact our ability to start new programs.

Any new program participation agreements may contain additional conditions on our 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, given the number of institutions that are winding down as part of announced teach-outs, ED may elect to issue provisional certification for certain of our institutions.

ED is conducting an inquiry concerning possible violations of ED misrepresentation regulations. See Note 13 "Contingencies – Regulatory Matters – ED Inquiry and HCM1 Status" to our consolidated financial statements. In addition, several of our institutions that are seeking recertification are subject to provisional certification. See Item 1,

“Business – Student Financial Aid and Related Federal Regulation – Eligibility and Certification by ED.” It is uncertain what impact, if any, ED’s inquiry or provisional certification may have on the 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. 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 13 "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. This focus may make the accreditation review process longer and potentially more challenging for all of our 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 an accreditor 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 are 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. The continuation of heightened unemployment could further harm our business. Diminished job prospects 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. Conversely, 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; individual plaintiffs may continue the litigation at their own expense on behalf of the government. See Note 13 "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 13 "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.

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, 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 income (loss) and comprehensive income (loss). 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 income (loss) and comprehensive income (loss). During 2015 and 2014, we recorded asset impairment charges of \$60.5 million and \$36.1 million, respectively, for our continuing operations (see Note 10 "Goodwill and Other Intangible Assets" and Note 8 "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. 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, 2015. As of December 31, 2015, we have recorded a partial valuation allowance in the amount of \$47.5 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, and a search for a permanent Chief Financial Officer is underway. 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 financial condition.

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 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 or teach out additional campuses 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 and cap enrollments in certain programs due to existing regulatory considerations such as minimum placement rate standards, the 90-10 Rule 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 or teach out additional campuses. 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. We cannot assure you that these measures will 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, in which we have a perpetual but non-exclusive license. 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. Also, certain of our campuses include cafeteria facilities, and utilize leased space to operate restaurants in conjunction with their culinary arts programs. 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, 2015 we leased approximately 3.1 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to eight years. As of December 31, 2015, we leased approximately 0.8 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from one to five years. As of December 31, 2015, 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. The Company vacated approximately 1.0 million square feet of space during the year ended December 31, 2015 and during the past two years the Company has entered into sublease arrangements or early lease termination agreements which will result in future cash savings of approximately \$80 million, net of cash payments.

ITEM 3. LEGAL PROCEEDINGS

Note 13 "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.

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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
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
	High	Low
2014		
First quarter	\$7.93	\$5.28
Second quarter	7.85	4.32
Third quarter	5.81	4.53
Fourth quarter	7.10	4.75

The closing price of our common stock as reported on the NASDAQ on February 19, 2016 was \$2.45 per share. As of February 19, 2016, there were approximately 116 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 to date ended December 31, 2015 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, 2015, approximately \$183.3 million was

available under the stock repurchase program.

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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
December 31, 2014				\$ 183,296,772
January 1, 2015—January 31, 2015	—	\$ —	—	183,296,772
February 1, 2015—February 28, 2015	—	—	—	183,296,772
March 1, 2015—March 31, 2015	75,987	5.48	—	183,296,772
April 1, 2015—April 30, 2015	—	—	—	183,296,772
May 1, 2015—May 31, 2015	441	4.13	—	183,296,772
June 1, 2015—June 30, 2015	1,138	4.01	—	183,296,772
July 1, 2015—July 31, 2015	—	—	—	183,296,772
August 1, 2015—August 31, 2015	—	—	—	183,296,772
September 1, 2015—September 30, 2015	—	—	—	183,296,772
October 1, 2015—October 31, 2015	4,560	3.94	—	183,296,772
November 1, 2015—November 30, 2015	154	3.76	—	183,296,772
December 1, 2015—December 31, 2015	—	—	—	183,296,772
Total	82,280		—	

(1) Includes 82,280 shares delivered back to the Company for payment of withholding taxes from employees for vesting restricted shares or 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, 2015, 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., DeVry Education Group Inc., ITT Educational Services, Inc., and Strayer Education, Inc. Bridgepoint Education Inc. was added to the peer index for the current year in replacement of Corinthian Colleges, Inc. which was included in the prior year. The reason for the change is due to the delisting of Corinthian Colleges Inc. from NASDAQ during 2015. Bridgepoint Education Group is a similarly related competitor. The performance graph begins with CEC's \$20.73 per share closing price on December 31, 2010.

COMPARISON OF CUMULATIVE FIVE-YEAR TOTAL RETURN

(Based on \$100 invested on December 31, 2010 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 income (loss) and comprehensive income (loss) and statement of cash flows data set forth below for each of the five years ended December 31, 2015, 2014, 2013, 2012 and 2011, and the balance sheet data as of December 31, 2015, 2014, 2013, 2012 and 2011, are derived from our audited consolidated financial statements. Prior period financial results have been recast to be comparable to current period reporting.

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands, except per share amounts)				
Selected Statements of Income (Loss) and					
Comprehensive Income (Loss) Data					
Total revenue	\$847,273	\$913,964	\$1,017,230	\$1,244,745	\$1,570,431
Operating expenses:					
Educational services and facilities	289,777	323,259	361,067	422,647	478,799
General and administrative	564,211	640,454	734,338	764,795	795,781
Depreciation and amortization	24,938	53,382	62,237	66,022	68,464
Goodwill and asset impairment ⁽¹⁾	60,515	36,141	21,647	94,825	191,026
Total operating expenses	939,441	1,053,236	1,179,289	1,348,289	1,534,070
Operating (loss) income	(92,168)	(139,272)	(162,059)	(103,544)	36,361
Operating margin percentage	-10.9 %	-15.2 %	-15.9 %	-8.3 %	2.3 %
Total other (expense) income	(2,270)	446	(6,764)	890	2,516
Pretax (loss) income	(94,438)	(138,826)	(168,823)	(102,654)	38,877
(Benefit from) provision for income taxes	(147,454)	3,736	456	(16,394)	49,988
Income (loss) from continuing operations	53,016	(142,562)	(169,279)	(86,260)	(11,111)
(Loss) income from discontinued operations, net of tax ⁽²⁾	(1,131)	(35,601)	5,016	(56,536)	29,684
Net income (loss)	\$51,885	\$(178,163)	\$(164,263)	\$(142,796)	\$18,573
Net income (loss) per share - basic:					
Income (loss) from continuing operations	\$0.78	\$(2.12)	\$(2.54)	\$(1.30)	\$(0.15)
(Loss) income from discontinued operations	(0.02)	(0.53)	0.08	(0.85)	0.40
Net income (loss)	\$0.76	\$(2.65)	\$(2.46)	\$(2.15)	\$0.25
Net income (loss) per share - diluted:					
Income (loss) from continuing operations	\$0.78	\$(2.12)	\$(2.54)	\$(1.30)	\$(0.15)
(Loss) income from discontinued operations	(0.02)	(0.53)	0.08	(0.85)	0.40
Net income (loss)	\$0.76	\$(2.65)	\$(2.46)	\$(2.15)	\$0.25

As of December 31,
2015 2014 2013 2012 2011
(Dollars in thousands)

Selected Balance Sheet Data**Assets:****Cash and cash equivalents, restricted cash and**

short-term investments	\$231,641	\$239,628	\$362,624	\$274,174	\$331,062
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Student receivables, net ⁽³⁾	\$35,576	\$35,317	\$38,620	\$55,451	\$56,397
Total current assets	\$288,963	\$318,107	\$460,017	\$543,561	\$610,478
Total assets	\$610,915	\$573,534	\$805,045	\$1,122,703	\$1,316,119
Liabilities:					
Deferred tuition revenue	\$40,112	\$54,573	\$59,609	\$61,847	\$92,658
Total current liabilities	\$192,805	\$180,237	\$207,432	\$352,715	\$329,443
Total liabilities	\$273,305	\$291,601	\$349,661	\$510,913	\$510,028
Working capital	\$96,158	\$137,870	\$252,585	\$190,846	\$281,035
Total stockholders' equity	\$337,610	\$281,933	\$455,384	\$611,790	\$806,091

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For the Year Ended December 31,
 2015 2014 2013 2012 2011
 (Dollars in thousands)

Selected Statements of Cash Flows Data					
Net cash (used in) provided by operating activities	\$(21,686)	\$(118,624)	\$(85,804)	\$(16,798)	\$230,450
Net cash (used in) provided by investing activities	\$(7,991)	\$(107,623)	\$166,866	\$58,355	\$(66,231)
Net cash provided by (used in) financing activities	\$2,518	\$980	\$6,103	\$(79,690)	\$(163,043)
Capital expenditures	\$(11,695)	\$(13,156)	\$(19,636)	\$(37,944)	\$(78,333)

- (1) See Note 8 “Property and Equipment” and Note 10 “Goodwill and Other Intangible Assets” to our consolidated financial statements for further discussion of these impairment charges.
- (2) See Note 5 “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,” “aim,” “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 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 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 hybrid learning programs. Our two universities – American InterContinental University (“AIU”) and Colorado Technical University (“CTU”) – provide degree programs through the master’s or doctoral level as well as associate and bachelor’s levels. Both universities predominantly serve students online with career-focused degree programs that are designed to meet the educational demands of today’s busy adults. AIU and CTU continue to show innovation in higher education, advancing new personalized learning technologies like their intellipath™ adaptive learning platform that allow students to more efficiently pursue earning a degree by receiving course credit for knowledge they can already demonstrate. 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.

During 2015, we made the decision to teach-out all our remaining Sanford-Brown, Briarcliffe College, Harrington College and Culinary Arts campuses (“LCB”). Accordingly, the results of operations for all our Sanford-Brown, Briarcliffe College and Harrington College campuses are now reported within the Transitional Group, as part of continuing operations as of December 31, 2015. Our LCB campuses were previously recorded as an asset held for sale within discontinued operations as of December 31, 2014. As a result of the decision made during December 2015 to teach-out our LCB campuses, they are reported as part of continuing operations within the Culinary Arts segment as of December 31, 2015. In addition, during 2015 we completed the sale of two colleges, Brooks Institute and Missouri

College, and completed the teach-out of five campuses within the 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, which limits discontinued operations reporting effective January 1, 2015. All prior period results have been recast to reflect our reporting segments on a comparable basis.

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 the Department of Education, 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, the Department of Education 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. We expect that this challenging regulatory environment will continue for for-profit educational institutions, including Career Education Corporation, for the foreseeable future and we cannot predict what legislation, if any, may emanate from Congressional committee hearings or what impact such legislation or the investigations involving us, might have on for-profit institutions and our business in particular.

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 and that failure to report non-GAAP measures could result in a misplaced perception that our results have underperformed or exceeded expectations.

We believe adjusted EBITDA allows us to compare our current operating results with corresponding 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. We also present adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of performance. In evaluating adjusted EBITDA, investors should be aware that in the future we may incur expenses similar to the adjustments presented below. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by expenses that are unusual, non-routine or non-recurring. Adjusted EBITDA 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 corresponding 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 corresponding financial results presented in accordance with GAAP.

2015 Review

Despite a challenging regulatory environment, we believe for-profit postsecondary education providers remain an integral solution to educate students. We are proud to serve and educate more than 43,000 students as of December 31, 2015. Over the course of the past year, we have made consistent progress to position the Company for long-term

financial stability and success amidst some difficult challenges facing the for-profit postsecondary education industry. We have made strategic decisions during 2015 to address the changing industry dynamics and the regulatory challenges, including decisions made to teach-out and sell campuses and to focus our resources on our University Group. These actions will position the Company for long-term financial stability, which will enable us to focus on student retention and outcomes, by investing in our core university institutions.

In May 2015, we made the decision to teach-out the remainder of the Sanford-Brown campuses, and sell or teach-out our Brooks Institute, Missouri College and Briarcliffe College, based on several factors, including the inability of those campuses to stay competitive in a challenging regulatory environment and historical financial losses. Additionally, during December 2015, we made the decision to teach out our LCB campuses which were previously held for sale. Discussions with several interested parties through the sale process did not ultimately lead to an agreement we felt was suitable to complete a transfer of ownership that would protect student, faculty and stockholder interests. As a result, we made the decision to teach-out these campuses which was in line with previous decisions announced to focus our resources on the University Group. Lastly, we began adjusting our staffing and right-sizing our corporate structure to be in-line with these teach-out decisions.

The result of these actions allows us to focus our resources around our CTU and AIU institutions. We believe CTU and AIU serve an important need in education for prospective students looking to increase their skills and expand their opportunities. We are focusing on improving the strength and breadth of the faculty, program offerings and resources at these universities with the goal of producing better student retention and outcomes, with improved financial stability and long-term prospects for growth and success. CTU and AIU are both strong universities with recognized brand names and multiple areas of study that provide us with a foundation and competitive position to build upon into the future.

During 2015 we launched four new degree programs across our AIU and CTU institutions in the areas of education (AIU), business administration (AIU), nursing (CTU) and healthcare management (CTU), as we see strong opportunities for our institutions to provide value to students seeking new career opportunities in these fields. Lastly, we invested in technology and other program enhancements to help drive improvements in student retention and outcomes in the future, including the rollout of our mobile application for both institutions. These achievements highlight the strength of these two institutions and provide a solid platform from which to succeed in the future.

Financial Highlights

Revenue from continuing operations declined \$66.7 million or 7.3% due to an overall 13.9% decrease in total student enrollments, primarily as a result of our decision to divest or teach out our Career Schools. Excluding our Transitional Group and Culinary Arts campuses which are in teach-out, revenue increased \$14.3 million or 2.7% for the current year as compared to the prior year. For the current year, we reported an operating loss from continuing operations of \$92.2 million as compared to an operating loss of \$139.3 million for the prior year. This improvement in operating loss was primarily due to increased revenue within our University Group, elimination of costs within our Transitional Group and efficiency initiatives within our University Group and Corporate, partially offset with increased expenses related to restructuring charges. Lastly, we reported cash usage from operations for 2015 of \$21.7 million, an improvement of \$96.9 million from the prior year's cash usage of \$118.6 million. We expect our future operating cash flow to remain subject to typical seasonal trends.

For our University Group, revenue increased \$14.4 million or 2.7% as compared to the prior year, primarily driven by increased total enrollment at CTU. Total enrollment for the University Group remained relatively flat for 2015 as compared to the prior year as CTU's increase of 4.4% was offset with a decrease for AIU's total enrollments of 8.6%. New student enrollments for the University Group decreased 1.5% for 2015 as compared to the prior year. CTU's increase of 3.1% was more than offset with the decline in new student enrollments within AIU. Revenue is primarily driven by total student enrollments. As a result, we believe trends in total student enrollments are a more accurate reflection of our ongoing focus on student retention and outcomes. Operating income for the University Group improved by \$32.9 million or 54.8% to \$93.0 million due to increased revenue and continued cost containment execution.

As a result of the decisions taken during 2015 to exit the Career Schools, in particular the decision to teach-out the LCB campuses made in the fourth quarter of 2015, actions taken related to these announcements and revised projections of taxable income for future periods, the Company revisited its conclusion regarding the valuation allowance recorded against its deferred tax assets and considered both negative and positive evidence to determine the appropriate accounting for its deferred taxes. Although the Company remains in a cumulative loss position for the trailing three years ended December 31, 2015, there was sufficient positive evidence leading to the partial reversal of the valuation allowance which primarily consisted of the following: (1) historical positive earnings for the University Group exclusive of the losses for the Transitional Group and Culinary Arts, which businesses are being exited (see Note 18 "Segment Reporting" for specific segment details), (2) favorable projections of taxable income, particularly in periods subsequent to the completion of the Transitional Group and Culinary Arts teach-outs, which will be sufficient to absorb the reversal of existing deductible temporary differences (including net operating losses), and (3) the Company analyzed the net revenue remaining from the University Group and the cost savings which will occur by eliminating the Transitional Group and Culinary Arts campuses. The Company concluded that the net operating loss

carryforward would be utilized in 2018, 2019 and 2020.

As a result of our assessment, we reversed approximately \$109.8 million of the valuation allowance recorded against our deferred tax assets, which represents the amount we determined was more likely than not to be realized for these assets. We continue to record a valuation allowance against approximately \$47.5 million of deferred tax assets as these assets are not more likely than not to be realized based upon the timeline associated with our future projections of taxable income. The \$109.8 million of tax benefit was recorded within income from continuing operations for the year ended December 31, 2015. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased or decreased, and additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance in future years for any change in circumstances that causes a change in judgment about the realizability of the deferred tax assets.

Our preliminary calculation of the Department of Education's financial responsibility composite score for the consolidated entity for the year ended December 31, 2015 is 1.7, which is considered financially responsible without conditions or additional oversight. Our financial responsibility ratio for 2015 benefits from the partial reversal of the valuation allowance recorded against our deferred tax assets discussed above. 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 in the future. However, we believe the successful implementation of our transformation strategy will allow us to remain financially responsible as defined by the Department for 2016. This belief is based upon, and subject to, the key assumptions and factors discussed below under the heading “Outlook.” For more information about the Department’s standards of financial responsibility, see Item 1, “Business – Student Financial Aid and Related Federal Regulation – Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations – Financial Responsibility Standards.”

We believe the use of an adjusted EBITDA measure allows us to compare our current operating results for our operations with corresponding 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. Adjusted EBITDA for the current quarter as well as the previous four quarters is presented below.

Adjusted EBITDA (\$ in thousands)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
University Group and Corporate:					
Pre-tax loss from continuing operations	\$(4,292)	\$(44,656)	\$(20,750)	\$(24,740)	\$(23,674)
Transitional Group pre-tax loss	15,182	23,724	32,624	30,470	23,788
Culinary Arts pre-tax loss (gain)	14,065	33,171	10,532	(250)	15,927
Interest expense (income), net	87	7	(52)	2	(38)
Depreciation and amortization ⁽¹⁾	3,318	3,454	3,956	4,361	5,170
Legal settlements ^{(1) (2)}	200	-	-	-	-
Stock-based compensation ⁽¹⁾	404	983	530	940	966
Asset impairments ⁽¹⁾	507	-	-	-	-
Unused space charges ^{(1) (3)}	114	(385)	(348)	556	(373)
Adjustment related to revenue recognition ^{(1) (4)}	101	348	94	93	1,354
Adjusted EBITDA--University Group and Corporate	\$29,686	\$16,646	\$26,586	\$11,432	\$23,120
Memo: Advertising Expenses ⁽¹⁾	\$33,431	\$46,194	\$34,258	\$50,587	\$36,731
Transitional Group, Culinary Arts and Discontinued Operations:					
Pre-tax loss from discontinued operations	\$(512)	\$(544)	\$(720)	\$(352)	\$(1,268)
Transitional Group pre-tax loss	(15,182)	(23,724)	(32,624)	(30,470)	(23,788)
Culinary Arts pre-tax (loss) gain	(14,065)	(33,171)	(10,532)	250	(15,927)
Loss on sale of business ⁽⁵⁾	161	715	917	-	-