

ITT EDUCATIONAL SERVICES INC

Form 10-K

March 15, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

(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 1-13144

ITT EDUCATIONAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13000 North Meridian Street

Carmel, Indiana
(Address of principal executive offices)

Registrant's telephone number, including area code (317) 706-9200

36-2061311
(I.R.S. Employer
Identification No.)

46032-1404
(Zip Code)

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

Title of each class
COMMON STOCK, \$.01 PAR VALUE

Name of each exchange on which registered
NEW YORK STOCK EXCHANGE, INC.

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

NONE

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

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer Accelerated filer

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

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

\$92,483,588

Aggregate market value of the voting stock held by nonaffiliates of the registrant based on the last sale price for such stock at June 30, 2015 (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are affiliates).

23,674,070

Number of shares of Common Stock, \$.01 par value, outstanding at January 31, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:

IDENTITY OF DOCUMENT	PARTS OF FORM 10-K INTO WHICH DOCUMENT IS INCORPORATED
Definitive Proxy Statement for the	PART III

Annual Meeting of Shareholders
to be held May 17, 2016

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Annual Report to Securities and Exchange Commission

December 31, 2015

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PART I

Item 1. Business.

Forward-Looking Statements: All statements, trend analyses and other information contained in this report that are not historical facts are forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 and as defined in Section 27A of the Securities Act of 1933 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Forward-looking statements are made based on our management s current expectations and beliefs concerning future developments and their potential effects on us. You can identify those statements by the use of words such as could, should, would, may, will, project, believe, anticipate, expect, plan, estimate, forecast, potential, intend, continue, and contemplate, as well as similar words and expressions. Forward-looking statements involve risks and uncertainties and do not guarantee future performance. We cannot assure you that future developments affecting us will be those anticipated by our management. Among the factors that could cause actual results to differ materially are the following:

the impact of adverse actions by the U.S. Department of Education related to certain deficiencies, lawsuits against us and our failure to submit our 2013 audited financial statements and 2013 compliance audits to it by the due date;

the impact of our consolidation of variable interest entities on us and the regulations, requirements and obligations that we are subject to;

our inability to obtain any required amendments or waivers of noncompliance with covenants under our financing agreement;

the impact of any adverse actions taken against us due to our failure to comply with the extensive education laws and regulations and accreditation standards that we are subject to;

our inability to remediate material weaknesses, or the discovery of additional material weaknesses, in our internal control over financial reporting;

our exposure under our guarantees related to private education loan programs;

the outcome of litigation, investigations and claims against us;

issues related to the restatement of our financial statements for the first three quarters of each of 2014 and 2015, and for the 2014 fiscal year;

the effects of the cross-default provisions in our financing agreement;

changes in federal and state governmental laws and regulations with respect to education and accreditation standards, or the interpretation or enforcement of those laws and regulations, including, but not limited to, the level of government funding for, and our eligibility to participate in, student financial aid programs utilized by our students;

business conditions in the postsecondary education industry and in the general economy;

effects of any change in our ownership resulting in a change in control, including, but not limited to, the consequences of such changes on the accreditation and federal and state regulation of our campuses;

our ability to implement our growth strategies;

our ability to retain or attract qualified employees to execute our business and growth strategies;

our failure to maintain or renew required federal or state authorizations or accreditations of our campuses or programs of study;

receptivity of students and employers to our existing program offerings and new curricula;

our ability to repay moneys we have borrowed; and

our ability to collect internally funded financing from our students.

Readers are also directed to other risks and uncertainties discussed in Risk Factors and elsewhere in this Annual Report and those detailed from time to time in other documents we file with the U.S. Securities and Exchange Commission (SEC). We undertake no obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

You should keep in mind the following points as you read this report:

References in this document to we, us, our and ITT/ESI refer to ITT Educational Services, Inc., its subsidiaries and any variable interest entity (VIE) that it consolidates in its consolidated financial statements, unless the context requires or indicates otherwise.

The term PEAKS Trust means the PEAKS Trust 2009-1, which is a VIE that purchased, owns and collects private education loans made under the PEAKS Private Student Loan Program (the PEAKS Program) and that we consolidate in our consolidated financial statements beginning on February 28, 2013.

The term CUSO means Student CU Connect CUSO, LLC, which is a VIE that purchased, owns and collects private education loans made under a private education loan program for our students (the CUSO Program) and that we consolidate in our consolidated financial statements beginning on September 30, 2014. In prior filings and disclosures, we referred to the CUSO as the 2009 Entity, but we refer to this entity as the CUSO in this filing to enhance the readability.

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The terms ITT Technical Institute or Daniel Webster College (in singular or plural form) refer to an individual school or campus owned and operated by ITT/ESI, including its learning sites, if any.

The term institution (in singular or plural form) means a main campus and its additional locations, branch campuses and/or learning sites, if any.

References in this document to education programs refer to degree or diploma programs of study that have been, or may be, offered by an ITT Technical Institute or by Daniel Webster College; and references in this document to training programs refer to the non-degree, short-term programs that have been, or may be, offered through the Center for Professional Development @ ITT Technical Institute (the CPD).

Background

We are a Delaware corporation incorporated in 1946. Our principal executive offices are located at 13000 North Meridian Street, Carmel, Indiana 46032-1404, and our telephone number is (317) 706-9200. From 1966 until our initial public offering on December 27, 1994, we were wholly owned by ITT Corporation, an Indiana corporation, formerly a Delaware corporation and formerly known as ITT Industries, Inc. (Old ITT). On September 29, 1995, ITT Corporation, a Nevada corporation (ITT), succeeded to the interests of Old ITT in the beneficial ownership of 83.3% of our common stock. ITT 's beneficial ownership of our common stock ended in February 1999.

Overview

We are a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. As of December 31, 2015, we were offering:

master, bachelor and associate degree programs to approximately 45,000 students; and

short-term information technology and business learning solutions for career advancers and other professionals.

As of December 31, 2015, we had 138 campus locations in 39 states. In addition, during 2015 we offered one or more of our online programs to students who are located in all 50 states. All of our campus locations are authorized by the applicable education authorities of the states in which they operate, and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We design our education programs, after consultation with employers and other constituents, to help graduates prepare for careers in various fields involving their areas of study. We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since 2009 under the Daniel Webster College (DWC) name.

In 2015, we did not begin operations at any new ITT Technical Institute campuses or learning sites. As part of our efforts to maximize the efficiency and effectiveness of our current campus locations, during 2015, we:

closed six of our ITT Technical Institute campuses after teaching out or relocating the affected students; and

decreased the number of our campuses that offer bachelor degree programs from 130 to 125.

We also ceased accepting new student enrollment at 10 campus locations, effective with the academic quarter that began in December 2015. During the next 12 months, we will be evaluating the total demands for these markets. During this evaluation period, we do not believe there will be any disruptions to ongoing course work for the continuously enrolled students, as we will continue to teach classes for those students. The 10 campus locations undergoing these market assessments represented approximately 3% of our new student enrollments, based on our new student enrollment results in the third quarter of 2015.

In 2015, we continued our efforts to diversify our program offerings by developing education programs at different credential levels in technology and non-technology fields of study that we intend to offer at our campuses and deliver entirely in residence, entirely online over the Internet or partially in residence and partially online.

In 2015, we continued to develop and offer training programs to career advancers and other professionals through the CPD.

As a result of the execution of enhanced internal controls over financial reporting that were implemented as part of the remediation of material weaknesses identified in a prior period, on March 9, 2016, the Audit Committee of our Board of Directors determined that there was an error in the application of the interest method used to calculate the interest rate used in accounting for the accretion of the debt discount associated with the senior debt issued by the PEAKS Trust (the PEAKS Senior Debt) that resulted in the misstatement of interest expense in previously reported periods. As a result, the Audit Committee concluded that we would restate the unaudited consolidated financial statements in our Quarterly Reports on Form 10-Q for each of the fiscal quarters ended March 31, 2014, June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, and the audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (collectively, the Restatements), and that all of those previously-issued financial statements should no longer be relied upon.

In June 2014, we determined that, beginning on February 28, 2013, we should have consolidated the PEAKS Trust in our consolidated financial statements (the PEAKS Consolidation). Our results of operations, financial condition and cash flows for

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periods after February 28, 2013 reflect the results of operations, financial condition and cash flows of the PEAKS Trust. We do not, however, actively manage the operations of the PEAKS Trust, and the assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. See Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and our Notes to Consolidated Financial Statements for further information about the PEAKS Consolidation.

In addition, we have determined that, effective September 30, 2014, we should begin consolidating the CUSO in our consolidated financial statements (the CUSO Consolidation and, together with the PEAKS Consolidation, the Consolidations). Our results of operations, financial condition and cash flows for periods after September 30, 2014 reflect the results of operations, financial condition and cash flows of the CUSO. We do not, however, actively manage the operations of the CUSO, and the assets of the CUSO can only be used to satisfy the obligations of the CUSO. See Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and our Notes to Consolidated Financial Statements for further information about the CUSO Consolidation.

Business Strategy

Our strategy is to pursue multiple opportunities for growth. We are implementing a growth strategy designed to:

improve the academic outcomes of our students;

increase the value proposition of our education programs for our students; and

increase access to high-quality, career-based education.

We intend to pursue this strategy by:

increasing student enrollment in existing programs at existing campuses;

continuing to provide institutional scholarships and awards to reduce the overall cost of attendance;

increasing the number and types of program and other educational offerings that are delivered in residence and/or online;

increasing our students' engagement in their programs of study;

enhancing the relevancy of our educational offerings;

assessing student achievement and learning;

improving the flexibility and convenience of how our institutions deliver their educational offerings;

helping our graduates obtain entry-level employment involving their fields of study at higher starting annual salaries;

operating new campuses across the United States; and

investing in other education-related opportunities.

Our ability to execute on this strategy is subject to extensive regulations and restrictions, as discussed further under Highly Regulated Industry. The principal elements of this strategy include the following:

Enhance Results at Each Institution.

Increase Enrollments at Existing Campuses. We intend to increase recruiting efforts that are primarily aimed at delivering high-quality, career-based education to multiple adult-learner audiences and to continue to provide institutional scholarships and awards to reduce the overall cost of attendance.

Develop and Deliver Different Education Program Offerings. We intend to develop and deliver different education program offerings that we believe offer graduates attractive returns on their educational investments.

As part of this strategy, we intend to further diversify our offerings by developing new education programs in both technology and non-technology fields, but primarily in technology- and healthcare-related disciplines. We believe that those programs of study will be at different education levels and delivered in a variety of formats, including entirely in residence, entirely online or partially in residence and partially online.

Part of our strategy is to increase the number of education programs that we offer to our students across our campuses. In 2015, we added a total of 43 associate and bachelor degree programs among 29 campuses.

We believe that developing new programs of study, delivering programs in different formats and increasing the number of programs from which prospective students may choose, can:

attract more, and a broader base of, students to our institutions;

motivate current students to extend their studies;

help improve student outcomes;

increase the value proposition of our programs of study to our students;

increase access to high-quality, career-based education; and

improve the utilization of our facilities.

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Improve Student Outcomes. We strive to improve the graduation and graduate employment rates of our ITT Technical Institute and DWC students by:

providing academic and career services;

dedicating administrative resources to those services;

increasing our students' engagement in their programs of study;

enhancing the relevancy of our educational offerings;

assessing student achievement and learning; and

increasing our students' access to financial aid.

Provide Education-Related Services. We plan to continue to develop and provide education-related services to students and other constituencies. These services may involve a variety of activities. Through the CPD, we are offering training programs to career advancers and other professionals. We are delivering assessments, consulting and authorized and customized training programs and curricula in the areas of information technology (IT), information technology infrastructure library (ITIL), development, business analysis, project management and leadership development. On January 31, 2014, we acquired certain assets and assumed certain liabilities of Great Equalizer, Inc. and CompetenC Solutions, Inc., two companies that offered short-term IT and business learning solutions for career advancers and other professionals, primarily under the name of Ascolta. We have integrated these acquired operations in the CPD, along with the operations of Cable Holdings, LLC, which we acquired in August 2013.

In 2015, we became the education management organizer (EMO) for two public charter high schools, one in each of Arizona and Indiana, which offers high school students an opportunity to concurrently earn both a high school diploma and an associate degree. In 2014, we became the EMO for a public charter high school in Michigan. These services are being offered under The Early Career Academy @ ITT Technical Institute (Early Career Academy) name.

Programs of Study

As of December 31, 2015, the ITT Technical Institutes were offering 49 education programs in various fields of study across the following schools of study:

Business;

Drafting and Design;

Electronics Technology;

Criminal Justice;

IT; and

Breckinridge School of Nursing and Health Sciences.

We design our education programs to help graduates prepare for careers in various fields by offering students a broad-based foundation in a variety of skills used in those fields. The following table sets forth examples of various fields involving the subject matter of education programs within a particular school of study in which graduates have obtained entry-level positions:

School of Study	Fields
Business	accounting business administration financial services manufacturing marketing and advertising sales
Drafting and Design	architectural and construction drafting civil drafting computer-aided drafting electrical and electronics drafting industrial engineering technology interior design landscape architecture mechanical drafting multimedia communications
Electronics Technology	communications computer technology electronics product design and fabrication industrial electronics instrumentation telecommunications

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School of Study	Fields
Criminal Justice	corrections cyber security investigations security and policing
IT	communications network administration network technology software development systems technology technical support
Breckinridge School of Nursing and Health Sciences	health information technology medical assisting and administration nursing

At the vast majority of our campuses, we generally organize the academic schedule for education programs of study on the basis of four 12-week academic quarters in a calendar year, with new students beginning at the start of each academic quarter. At these campuses, students taking a full-time course load can complete our associate degree programs in seven or eight academic quarters, bachelor degree programs in 14 or 15 academic quarters and a master degree program in seven academic quarters. We typically offer classes in most residence education programs in:

3.5- to 5.5-hour sessions three days a week, Monday through Saturday, with all program courses taught entirely or partially in residence; or

sessions that are scheduled two to three days a week, Monday through Saturday, with certain program courses taught entirely or partially online over the Internet most academic quarters.

Depending on student enrollment, class sessions at the vast majority of our ITT Technical Institute campuses are generally available during the day and evening. The courses for education programs that are taught online over the Internet are delivered through an asynchronous learning network and have a prescribed schedule for completion of the coursework. At the vast majority of our ITT Technical Institute campuses, the class schedule for our education program residence courses and the coursework completion schedule for our education program online courses generally provide students with the flexibility to maintain employment concurrently with their studies. Based on student surveys, we believe that a majority of our ITT Technical Institute students work at least part-time during their programs of study.

Most of our education programs of study blend traditional academic content with applied learning concepts and have the objective of helping graduates prepare for a changing economic and/or technological environment. A significant portion of most education programs offered at our campuses involves practical study in a lab environment.

The learning objectives of most courses in each education program are substantially the same among the vast majority of our campuses to provide greater uniformity and to better enable students to transfer, if necessary, to other ITT

Technical Institute campuses offering the same programs with less disruption to their education. We regularly review each curriculum to respond to changes in technology and industry needs. Each of the ITT Technical Institutes establishes an advisory committee for each field of study for education programs taught at that campus, which is comprised of representatives of local employers and other constituents. These advisory committees assist the ITT Technical Institutes in assessing curricula, equipment and laboratory design, and updating the curricula. In addition to courses directly related to a student's program of study, our education programs also include general education courses in the humanities, composition, mathematics, the sciences and the social sciences.

Gross tuition for a student entering an undergraduate residence education program at an ITT Technical Institute in December 2015 for 36 quarter credit hours (the minimum course load for a full-time student for an academic year consisting of three academic quarters) was \$17,748 for all ITT Technical Institute undergraduate residence education programs, except as adjusted in one state to reflect applicable taxes and fees. We have not increased gross tuition rates for our ITT Technical Institute education programs of study since 2010, and we do not intend to increase gross tuition rates for our ITT Technical Institute education programs of study in 2016. The net tuition we recognize per enrolled student is lower than the gross tuition due to a portion of our students attending part-time, as well as the effect of institutional scholarships and awards. In the academic year beginning in December 2015 and ending in September 2016, we believe the net tuition for our ITT Technical Institute education programs of study will average approximately \$12,100 per student. The majority of students attending residence programs at our campuses lived in that campus metropolitan area prior to enrollment.

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Gross tuition for a student entering an undergraduate residence education program at DWC in September 2015 for 24 semester credit hours (the minimum course load for a full-time student for an academic year consisting of two academic semesters) was \$15,630 for all DWC undergraduate residence education programs. The only student housing that we provide is at the Nashua, New Hampshire campus of DWC.

As of December 31, 2015, the CPD was offering 3,204 training programs in the following areas:

IT	Leadership development
ITIL	Professional development
Development	Business software application
Business analysis	Process and productivity
Project management	Graphic design and media

The length of these programs ranges from four hours to 40 hours. These programs are taught primarily through instructor-led sessions delivered in person and virtually.

Student Recruitment

With respect to education programs offered at the ITT Technical Institute and DWC, we strive to attract students with the motivation and ability to complete the career-oriented educational programs. To generate interest among potential students, we engage in a broad range of activities to inform potential students and their parents about our campuses and the programs they offer. These activities include television, Internet and other media advertising, social media, direct mailings and high school presentations. As of December 31, 2015, we employed approximately 1,240 full- and part-time recruiting representatives to assist in recruiting efforts.

Recruiting representatives pursue expressions of interest from potential students for our residence education programs by contacting prospective students and arranging for interviews at the campus. Occasionally, we also pursue expressions of interest from students for our residence education programs by contacting them and arranging for their attendance at a seminar providing information about the campus and its programs. We pursue expressions of interest from potential students for our online education programs by providing program and resource information on our websites and through telephone calls, electronic mail, social media and postal delivery.

Student recruitment activities are subject to substantial regulation at both the state and federal level and by our accrediting commissions. Certain states have bonding and licensing requirements that apply to many of our representatives and other employees involved in student recruitment. Our National Director of Recruitment and Regional Directors of Recruitment oversee the implementation of recruitment policies and procedures. In addition, our compliance department reviews student recruiting practices at each of our campuses on at least an annual basis.

Representatives of the CPD periodically communicate with national and local employers, primarily through face-to-face meetings, phone calls and emails, to identify their training needs. These needs arise through new IT systems implementations, employee turnover, and a desire by employers and employees to expand their skills. The CPD also hosts informational webinars and conferences that help identify training opportunities. Additionally, individuals and employers contact the CPD through information found on its website.

Student Admission and Retention

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We require all applicants for admission to any of our campus education programs to have a high school diploma or a recognized equivalent. Depending on the program of study and the campus, applicants may also be required to:

pass an admission examination;

possess a designated number of credit hours or degree with a specified overall cumulative grade point average from an accredited postsecondary educational institution;

complete the Scholastic Assessment Test or American College Testing examination; and

tour the campus.

The following table sets forth the demographics of students at the ITT Technical Institutes as of the dates indicated:

Student Demographics	Approximate Percent of Student Census	
	December 31, 2015	December 31, 2014
Age		
19 or less	3%	3%
20 through 24	24%	23%
25 through 30	29%	29%
31 or over	44%	45%

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Student Demographics	Approximate Percent of Student Census	
	December 31, 2015	December 31, 2014
Gender		
Male	72%	55%
Female	28%	45%
Race		
Caucasian	41%	42%
Other (1)	59%	58%

(1) Based on applicable federal classifications.

The faculty and staff at each of our campuses strive to help students overcome obstacles to the completion of their education programs. As is the case in other postsecondary institutions, however, students often fail to complete their education programs for a variety of personal, financial or academic reasons. Student withdrawals prior to education program completion not only affect the students, they also have a negative regulatory and financial effect on the campus and the entire institution. To minimize these student withdrawals, each of our campuses devotes staff resources to assist and advise students regarding academic and financial matters. We encourage academic advising and tutoring in the case of students experiencing academic difficulties. We also offer assistance and advice to students in our residence education programs who are looking for part-time employment and housing.

The CPD assesses a prospective student's skill set and goals to determine the program that would best meet the individual's objectives and experience before enrolling a student in a program.

Graduate Employment

We believe that the success of our ITT Technical Institute and DWC graduates who begin their careers in fields involving their education programs is critical to the ability of our campuses to continue to recruit students for our education programs. We try to obtain data on the number of students employed following graduation from an ITT Technical Institute or DWC. The reliability of such data depends largely on information that students and employers report to us. Based on this information, we believe that approximately 73% of the Employable Graduates (as defined below) in 2014 had obtained employment by April 30, 2015 in positions that required the direct or indirect use of skills taught in their education programs, compared to approximately 70% of the Employable Graduates in 2013 who had obtained employment by April 30, 2014.

Employable Graduates are defined in accordance with the graduate employment metrics that we are required to report by one of the accrediting commissions that accredits our institutions and include all of the graduates from the ITT Technical Institutes' education programs in the applicable year, except for those graduates who:

were pregnant, died or suffered other health-related conditions that prevented them from working;

continued their education;

were engaged in active U.S. military service;

moved out of the United States with a spouse or parent who was engaged in active U.S. military service;

were incarcerated in a correctional institution (other than a half-way house) for more than 30 consecutive days; or

possessed visas that did not permit them to work in the United States following graduation.

Each of our campuses employs personnel to offer career services to students and graduates from our education programs. These persons assist in job searches, solicit employment opportunities from employers and provide information on job search techniques, where to access employer information, writing resumes and how to prepare for, appear at and conduct oneself during job interviews.

Based on information from graduates and employers who responded to our inquiries, the reported annualized salaries initially following graduation averaged approximately \$34,553 for the Employable Graduates in 2014 who, as of April 30, 2015, had obtained employment in positions that required the direct or indirect use of skills taught in their education programs, compared to approximately \$33,398 for the Employable Graduates in 2013 who, as of April 30, 2014, had obtained employment in positions that required the direct or indirect use of skills taught in their education programs. The average annual salary initially following graduation for our Employable Graduates may vary significantly among the ITT Technical Institutes depending on local employment conditions and each Employable Graduate's particular education program, background, prior work experience and willingness to relocate. Initial employers of Employable Graduates from education programs at the ITT Technical Institutes include small, medium and large companies and governmental agencies.

Faculty

We hire faculty members for our education programs in accordance with criteria established by us, the accrediting commissions that accredit our campuses and the state education authorities that regulate our campuses. We hire faculty with relevant work experience and/or academic credentials to teach most technical subjects. Faculty members for our education programs at each campus typically include the chairperson for each school or education program and various categories of instructors, including full-time and adjunct.

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Administration and Employees

Each of our campuses is managed by a person who has overall responsibility for the operation of the campus. The administrative staff of each campus also includes managers in the major functional areas of that campus, including recruitment, finance, registration, academics and career services. As of December 31, 2015, we had approximately 4,100 full-time and 4,300 part-time employees. None of our employees are represented by labor unions.

Our headquarters provides centralized services to all of our campuses in the following areas:

- | | |
|--------------------------------|---------------------------|
| accounting | legal |
| marketing | regulatory |
| public relations | legislative affairs |
| curricula development | real estate |
| management information systems | human resources |
| purchasing | compliance/internal audit |

In addition, national managers of each of the following major campus functions reside at our headquarters and develop policies and procedures to guide these functions at our ITT Technical Institute campuses:

- | | |
|------------------|--------------------|
| recruiting | career services |
| financial aid | learning resources |
| academic affairs | registration |

Managers located at our headquarters monitor the operating results of each of our campuses and regularly conduct on-site reviews.

Competition

The postsecondary education and professional training markets in the United States are highly fragmented and competitive, with no single private or public institution enjoying a significant market share. Our campuses compete for students with associate, bachelor and graduate degree-granting institutions, which include public and nonprofit private colleges and proprietary institutions, as well as with alternatives to higher education such as military service or immediate employment. We believe competition among educational institutions is based on the:

- quality and reliability of the institution's programs and student services;
- reputation of the institution and its programs and student services;
- type and cost of the institution's programs;
- employability of the institution's graduates;

ability to provide easy and convenient access to the institution's programs and courses;

quality and experience of the institution's faculty; and

time required to complete the institution's programs.

Certain public and private colleges may offer programs similar to those offered by our campuses at a lower tuition cost due in part to government subsidies, foundation grants, tax deductible contributions, tax-exempt status or other financial resources not available to proprietary institutions. Other proprietary institutions offer programs that compete with those offered by our campuses. Certain of our competitors in both the public and private sectors have greater financial and other resources than we do. In addition, recent and ongoing adverse matters affecting us and our industry, including, without limitation, investigations, claims and lawsuits, and the negative publicity associated with those matters, may make it more difficult for us to attract and retain students and to compete with institutions that are not as impacted by such matters.

The CPD competes primarily with local and national providers of IT and business skills training. We believe competition among training providers is based on the:

quality and reliability of the training provider's programs;

reputation of the training provider and its programs;

type and cost of the training provider's programs;

ability to provide easy and convenient access to the training provider's courses;

quality and experience of the training provider's instructors; and

time required to complete the training provider's programs.

Federal and Other Financial Aid Programs

In 2015, approximately 80% of our revenue determined on a cash accounting basis under the 90/10 Rule calculation was from the federal student financial aid programs under Title IV (the Title IV Programs) of the Higher Education Act of 1965, as amended

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(the HEA). See Risk Factors Risks Related to Our Highly Regulated Industry *One or more of our institutions may lose its eligibility to participate in Title IV Programs, if the percentage of its revenue derived from those programs is too high* for a description of the 90/10 Rule. Our institutions' students also rely on scholarships and awards, family contributions, personal savings, employment, state financial aid programs, veterans' and military benefits, internal student financing offered by us, private education loan programs and other resources to pay their educational expenses associated with their education programs. The primary Title IV Programs from which the students at our campuses received grants, loans and other aid to fund the cost of their education programs in 2015 included:

the William D. Ford Federal Direct Loan (the FDL) program, which represented, in aggregate, approximately 56% of our cash receipts; and

the Federal Pell Grant (the Pell) program, which represented, in aggregate, approximately 23% of our cash receipts.

Other sources of financial aid used by our students in 2015 to help pay the costs associated with their education programs included:

state financial aid programs, veterans' and military service member benefit programs and other sources, which represented, in aggregate, approximately 14% of our cash receipts;

employment, personal savings and family contributions, which represented, in aggregate, approximately 4% of our cash receipts; and

private education loan programs, which represented approximately 2% of our cash receipts.

Institutional scholarships and awards, which our students use to help reduce their educational expenses, amounted to, in aggregate, approximately \$219.1 million in 2015. Institutional scholarships and awards for ITT Technical Institute students averaged approximately \$1,063 per student in the year ended December 31, 2015, based on the number of students enrolled in education programs in each of the three months ended March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015. We also provided internal student financing to our students in 2015, which consists of non-interest bearing, unsecured credit extended to our students.

We believe that the employers of the vast majority of individuals enrolled in the training programs offered through the CPD pay for the individuals' costs of those programs either directly to the CPD or through employee reimbursements.

Highly Regulated Industry

The training programs offered through the CPD require approval from certain state education agencies and the accrediting commission that accredits our ITT Technical Institutes. Individuals who enroll in the training programs offered by the CPD are not eligible to receive funds under the Title IV Programs for those training programs. The discussion in the remainder of this section applies to the ITT Technical Institutes and DWC, and the education programs offered by those institutions.

Our institutions are subject to extensive regulation by the ED, the state education and professional licensing authorities (collectively, the SAs) and the accrediting commissions that accredit our institutions (the ACs). The statutes, regulations and standards applied by the ED, SAs and ACs are periodically revised and the interpretations of existing requirements are periodically modified. We cannot predict how any of the statutes, regulations and standards applied by the ED, SAs and ACs will be interpreted and implemented.

The statutes, regulations and standards applied by the ED, SAs and ACs cover the vast majority of our operations, including our:

academic affairs;

educational programs;

facilities;

academic and administrative staff;

administrative procedures;

marketing;

student recruitment;

compensation practices; and

financial operations and financial condition.

These requirements also affect our ability to:

add new campuses;

add new, or revise or expand our existing, educational programs; and

change our corporate structure and ownership.

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Regulation by the U.S. Department of Education

At the federal level, the HEA and the regulations promulgated under the HEA by the ED set forth numerous, complex standards that institutions must satisfy in order to participate in Title IV Programs. To participate in Title IV Programs, an institution must:

receive and maintain authorization by the appropriate SAs;

be accredited by an accrediting commission recognized by the ED; and

be certified as an eligible institution by the ED.

The purposes of these standards are to, among other things:

limit institutional dependence on Title IV Program funds;

prevent institutions with unacceptable student loan default rates from participating in Title IV Programs; and

in general, require institutions to satisfy certain criteria related to educational value, administrative capability and financial responsibility.

Most of the ED's requirements are applied on an institutional basis, with an institution defined by the ED as a main campus and its additional locations, if any. Under the ED's definition, we had three institutions as of December 31, 2015, comprised of two ITT Technical Institute main campuses and one DWC main campus. All of the remaining ITT Technical Institute campuses are additional locations of the ITT Technical Institute main campuses under the ED's regulations. As of December 31, 2015, one ITT Technical Institute institution had 133 additional locations and the second ITT Technical Institute institution had two additional locations. The HEA requires each institution to periodically renew its certification by the ED to continue its participation in Title IV Programs. As of December 31, 2015, all 138 of our campuses participated in Title IV Programs.

The HEA requires a proprietary institution to operate for two years before it can qualify to participate in Title IV Programs. If an institution that is certified to participate in Title IV Programs establishes an additional location and receives all of the necessary SA and AC approvals for that location, that additional location can participate in Title IV Programs immediately upon being reported to the ED, unless the institution will offer at least 50% of an entire educational program at that location and any one of the following restrictions applies, in which case the ED must approve the additional location before it can participate in Title IV Programs:

the institution is provisionally certified to participate in Title IV Programs;

the institution receives Title IV Program funds under the ED's heightened cash monitoring or reimbursement system of payment;

the institution acquired the assets of another institution that provided educational programs at that location during the preceding year and participated in Title IV Programs during that year;

the institution would be subject to loss of eligibility to participate in Title IV Programs, because the additional location lost its eligibility to participate in Title IV Programs as a result of high student loan cohort default rates under the Federal Family Education Loan (FFEL) and/or the FDL programs; or

the ED previously notified the institution that it must apply for approval to establish an additional location.

One of the ED's regulations applicable to our institutions is that each institution must submit to the ED on an annual basis its audited, consolidated financial statements and a compliance audit of the institution's administration of the Title IV Programs in which it participates (Compliance Audit). The financial statements and Compliance Audit must cover one fiscal year and must be submitted to the ED within six months after the end of the fiscal year. Our institutions did not submit their 2013 audited consolidated financial statements and Compliance Audits to the ED by June 30, 2014 and, as a result, the ED determined in August 2014 that our institutions were not financially responsible, which resulted in, among other things, our institutions being:

required to submit a letter of credit payable to the ED (which, in December 2015, was replaced by our deposit of cash into an escrow account being held by the ED);

placed on heightened cash monitoring by the ED, instead of the ED's standard advance payment method; and

provisionally certified by the ED to participate in Title IV Programs.

Our institutions' participation in the Title IV Programs will remain provisional until at least November 4, 2019. *See Risk Factors Risks Related to Our Highly Regulated Industry "The ED has imposed sanctions and reporting requirements on us, including having to post a letter of credit with the ED (subsequently replaced with a deposit of funds into an ED escrow account), being placed on heightened cash monitoring, being provisionally certified, and various reporting and operational requirements, due to our late submission to the ED of our institutions' 2013 audited consolidated financial statements and Compliance Audits and other reasons, and could impose additional sanctions and requirements on us in the future."*

Any one or more of the sanctions or actions described above could have a material adverse effect on our financial condition, results of operations and cash flows.

The HEA and its implementing regulations require each institution to periodically reapply to the ED for continued certification to participate in Title IV Programs. The ED recertifies each institution deemed to be in compliance with the HEA and the ED's regulations for a period of six years or less. Before that period ends, the institution must apply again for recertification. The current

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provisional certifications of our three institutions expire on June 30, 2017. If an institution successfully participates in Title IV Programs during its period of provisional certification, but fails to satisfy the full certification criteria, the ED may renew the institution's provisional certification. The ED has informed our institutions that, due to their failure to submit their 2013 audited consolidated financial statements and Compliance Audits to the ED by June 30, 2014, the ED will not consider our institutions to have satisfied the ED's eligibility standards relating to financial responsibility before November 4, 2019. As a result, our institutions' participation in the Title IV Programs will continue to be provisional, if our institutions are recertified when their current provisional certifications expire on June 30, 2017.

The ED may revoke an institution's provisional certification without advance notice, if the ED determines that the institution is not fulfilling all material requirements. If the ED revokes an institution's provisional certification, the institution may not apply for reinstatement of its eligibility to participate in Title IV Programs for at least 18 months. If the ED does not recertify the institution following the expiration of its provisional certification, the institution loses eligibility to participate in Title IV Programs, until the institution reapplies to participate and the ED certifies the institution to participate.

The HEA and applicable regulations permit students to use Title IV Program funds only to pay the cost associated with enrollment in an eligible program offered by an institution participating in Title IV Programs. A proprietary institution that is eligible to participate in Title IV Programs can generally add a new educational program without the ED's approval, if that new program:

leads to an associate level or higher degree and the institution already offers programs at that level; or

prepares students for gainful employment in the same or a related occupation as an educational program that had been previously designated as an eligible program at the institution and meets minimum length requirements.

Otherwise, the proprietary institution has to obtain the ED's approval before it can disburse Title IV Program funds to students enrolled in the new program. However, any institution that is provisionally certified by the ED, like all of our institutions are, must apply for and receive approval by the ED for any substantial change before the institution can award, disburse or distribute Title IV Program funds based on the substantial change. Substantial changes generally include, but are not limited to:

the establishment of an additional location;

an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;

an addition of any non-degree program or short-term training program; or

an addition of a degree program by a proprietary institution.

If an institution applies for the ED's approval of a substantial change, the institution must demonstrate that it has the financial and administrative resources necessary to assure the institution's continued compliance with the ED's standards of financial responsibility and administrative capability.

If we are unable to obtain the required approvals from the ED for any new campuses, or any new program offerings, or to obtain those approvals in a timely manner, our ability to operate the new campuses or offer new programs as planned would be impaired, which could have a material adverse effect on our growth plans. See Risk Factors Risks Related to Our Highly Regulated Industry *We cannot operate new campuses or offer new programs, if they are not timely authorized by our regulators, and we may have to repay Title IV Program funds disbursed to students enrolled at any of those locations or in any of those programs, if we do not obtain prior authorization.*

Regulation by Department of Defense and State Approving Agencies for Veterans Benefits

Some of our students who are veterans and/or their dependents use their benefits under the Montgomery GI Bill (MGIB) or the Post-9/11 Veterans Educational Assistance Act of 2008, as amended (Post-9/11 GI Bill) (collectively the GI Bill Programs), to cover all or a portion of their tuition. A certain number of our students are also eligible to receive funds from other education assistance programs administered by the U. S. Department of Veterans Affairs (VA).

Department of Veterans Affairs. The VA administers education benefits provided by federal law, including the GI Bill Programs. Pursuant to federal law related to these programs, our campuses are approved to provide education to veterans and their dependents under these benefit programs by the state approving agencies in the applicable state.

The Post-9/11 GI Bill expanded education benefits for veterans who have served on active duty since September 11, 2001, including reservists and members of the National Guard, beyond the benefits available under the MGIB. The Post-9/11 GI Bill also allows service members to transfer their benefits to family members. The Post-9/11 GI Bill also provides veterans up to \$1,000 per academic year for books, supplies, equipment and other education costs. The Post-9/11 Veterans Educational Assistance Improvements Act of 2010 (Improvements Act) revised the calculations of benefits related to tuition and fees under the Post-9/11 GI Bill. For a veteran attending a non-public U.S. institution, the Improvements Act provides tuition and fees based on the net cost to the veteran (after accounting for state and federal student financial aid, scholarships, institutional aid, fee waivers, and similar assistance), up to \$21,084.89 for the 2015-2016 year. Veterans pursuing a program of education on a more than half-time basis at an

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on-campus location are also eligible for a monthly housing allowance equal to the basic allowance for housing available to service members who are at a military pay grade E-5 and have dependents. In addition, eligible veterans pursuing an educational program solely through distance learning are eligible to receive a monthly housing allowance equal to half the amount available to students attending certain traditional classroom-based programs or programs that combine classroom learning and distance education.

The Post-9/11 GI Bill also established the Yellow Ribbon Program. This program allows institutions of higher learning (degree-granting institutions) in the U.S. or a branch of such institutions located outside of the U.S. to voluntarily enter into an agreement with the VA to partially or fully fund tuition and fee expenses that exceed the established tuition and fee amounts payable under the Post-9/11 GI Bill. The institution may contribute a specified dollar amount of these expenses, and the VA will match the contribution, not to exceed 50% of the difference. Only veterans (or dependents under the transfer of entitlement provisions) who are at the 100% benefit rate, as determined by service requirements, qualify to participate in the Yellow Ribbon Program. The VA issues payments for tuition and fees and the Yellow Ribbon Program match directly to the institution on behalf of the student. Most ITT Technical Institutes participate in the Yellow Ribbon Program.

On April 27, 2012, President Obama signed Executive Order 13607, Establishing the Principles of Excellence for Educational Institutions Serving Service Members, Veterans, Spouses, and Other Family Members (EO 13607). EO 13607 addresses key areas concerning federal military and veterans educational benefits. Pursuant to EO 13607, for students who are eligible to receive federal military and veterans educational benefits, the institution must:

provide a standardized cost form, the Financial Aid Shopping Sheet, prior to enrollment;

advise the student of the availability of and their potential eligibility for federal financial aid before recommending or offering private student loans;

comply with ED s Title IV program integrity rules, including rules related to incentive compensation and misrepresentation;

obtain approval from its accreditor, as required under the accreditor s standards, for new courses or programs before offering and enrolling students in such courses or programs;

establish a readmissions policy that allows service members and reservists who are unable to attend class or experience short term absences due to service obligations to be readmitted to their program of study;

agree to an institutional refund policy that is aligned with the Return of Title IV policy for students who withdraw prior to term completion;

provide individual education plans that detail the requirements necessary to graduate, information about transfer of credit and expected timeline of completion; and

provide a designated point of contact for academic and financial advising to assist with completion of studies and job search activities.

While the VA did not implement new regulatory requirements to effectuate the requirements of EO 13607, it did ask institutions to voluntarily agree to comply with those requirements and it routinely assesses compliance by institutions that volunteered to comply. All of our institutions volunteered to comply with the requirements of EO 13607.

Department of Defense. 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 U.S. Department of Defense (DoD) (DoD Tuition Assistance Programs). Each institution participating in the DoD Tuition Assistance Programs is required to sign a Memorandum of Understanding (MOU), outlining certain commitments and agreements between the institution and DoD prior to being permitted to participate in the DoD Tuition Assistance Programs. In 2014, the DoD revised the MOU and required participating institutions to execute a new MOU. We participate in the DoD Tuition Assistance Programs under the revised MOU. We executed the required revised MOUs on or before the September 2014 deadline and, therefore, all of our campuses are party to an executed revised MOU.

Pursuant to the MOU, among other requirements, the institution must provide each prospective military student with specific information prior to enrollment regarding certain ED and U.S. Consumer Financial Protection Bureau (CFPB) tools, such as ED s College Navigator website, the College Scorecard website and the CFPB s Paying for College website; and, in certain circumstances, return tuition assistance funds to the DoD (such as when a student ceases to attend or an institution cancels a course). The MOU also provides that an institution may only participate in the DoD Tuition Assistance Programs if it is accredited by an accrediting agency recognized by the ED, approved for funding by the VA, and a participant in the Title IV programs administered by the ED.

On January 30, 2014, the DoD, VA, ED, and Federal Trade Commission, in collaboration with the CFPB and the U.S. Department of Justice, announced a new online VA GI Bill Feedback System for service members, veterans, and their families to report negative experiences at education institutions and training programs administering the Post-9/11 GI Bill, DoD Tuition Assistance Programs, and other military-related education benefit programs. The feedback system is designed to help the government identify and address unfair, deceptive, and misleading practices. The VA GI Bill Feedback System was developed pursuant to EO 13607, which requires federal agencies to create a centralized online reporting system for students receiving federal military and veterans educational benefits to register complaints that can be tracked and responded to by relevant agencies. An institution having recurring substantive complaints, or demonstrating an unwillingness to resolve complaints, may face a range of penalties, including revocation of its MOU and removal from participation in the VA educational benefits and DoD Tuition Assistance Programs.

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The VA, the DoD and the applicable state approving agency also periodically review a location's compliance with laws, regulations and applicable guidance. The scope of the reviews vary, and noncompliance may result in the assessment of repayment liabilities to students receiving DoD or VA educational benefits, as well as locations being subjected to corrective action, fines and/or suspensions, including the location no longer being an approved location for students to access their DoD or VA educational benefits, and the potential loss of program and institutional eligibility for such benefits.

All of our campuses are approved to receive veterans' educational program benefits under the GI Bill Programs. State approving agencies could decide to suspend the approval of our courses in the campuses of those states for receipt of veterans' educational program benefits under the GI Bill Programs and require the submission of additional information and reports. Any of these actions by any state approving agency could materially and adversely affect our enrollments, results of operations and financial condition. If a material amount of the veterans' educational benefits funding that our students have historically received that is included in our non-Title IV revenue for purposes of the 90/10 Rule is no longer available, the percentage of our revenue from Title IV sources could materially increase, which could make it more difficult for us to satisfy the 90/10 Rule.

See Risk Factors Risks Related to Our Highly Regulated Industry *Our campuses' failure to comply with the requirements for receiving veterans' educational benefits or Department of Defense tuition assistance program funds could result in their loss of eligibility to receive such benefits and funds, which could materially and adversely affect our business.*

Regulation by State Education Agencies and Professional Licensing Authorities

As of December 31, 2015, we operated one or more campuses in 39 states and our campuses recruited students in all 50 states. Each of our campuses must be authorized by the applicable SAs to operate. The state laws and regulations that we must comply with in order to obtain authorization from the SAs are numerous and complex. As of December 31, 2015, each of our campuses had received authorization from one or more SAs.

The laws and regulations in most of the states in which our campuses are located treat each of our campuses as a separate, unaffiliated institution and do not distinguish between main campuses and additional locations or branch campuses, although many states recognize other locations within the state where educational activities are conducted and/or student services are provided as learning sites, teaching sites, satellite campuses or otherwise. In some states, the requirements to obtain state authorization limit our ability to establish new campuses, add instructional locations, offer new programs, recruit and offer online programs.

Campuses that confer bachelor or master degrees must, in most cases, meet additional regulatory standards. Raising the curricula of our existing campuses to the bachelor and/or master degree level requires the approval of the applicable SAs and the ACs.

State education laws and regulations affect our operations and may limit our ability to introduce programs or obtain authorization to operate in some states. If any one of our campuses lost its state authorization to operate in the state in which it is physically located, the campus would be unable to offer postsecondary education and we would be forced to close the campus. Closing multiple campuses for any reason could have a material adverse effect on our financial condition, results of operations and cash flows.

Most of the states in which our institutions are authorized to operate have laws or regulations that require institutions to demonstrate annually that they are financially stable. As a result of the delay in the submission of our 2013 audited consolidated financial statements to our Florida SA, our Florida SA determined on August 5, 2014 that our 11

campuses in Florida are not financially stable. Based on this determination, our Florida SA:

changed the authorization to operate for each of our Florida campuses from an annual license to a provisional license;

told us that it would conduct an on-site visit of each of our Florida campuses to determine the campus compliance with the Florida SA's regulations;

told us that it would require each of our Florida campuses to correct any deficiencies noted during our Florida SA's on-site visit of the campus;

required us to submit to our Florida SA any correspondence that we or any of our institutions have with the ED or the AC of our Florida campuses, within 15 days of the submission or receipt of that correspondence;

required each of our Florida campuses to submit a train-out plan to our Florida SA on or before September 4, 2014; and

required us to report to our Florida SA, at its September 2014 meeting, on the stability of our Florida campuses and any changes that may further affect our stability or operations.

The provisional license of each of our Florida campuses currently extends through March 31, 2016. Upon the satisfaction of all of the requirements specified above, however, each campus may apply to our Florida SA to have the campus authorization changed back to an annual license. We cannot assure you, however, that our Florida campuses will be able to satisfy all of the requirements specified above, or that our Florida SA will change any of the campuses back to an annual license. See Risk Factors [Risks Related to Our Highly Regulated Industry](#) *Failure of our campuses to comply with the extensive regulatory requirements for school operations could result in 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 campuses.*

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Regulation by Accrediting Commissions

Accreditation by an accrediting commission recognized by the ED is required for an institution to become and remain eligible to participate in Title IV Programs. In addition, some states require institutions operating in the state to be accredited as a condition of state authorization. Both of our ITT Technical Institute institutions are accredited by the Accrediting Council for Independent Colleges and Schools (the ACICS). DWC is accredited by the Commission on Institutions of Higher Education of the New England Association of Schools and Colleges (the NEASC). Both the ACICS and the NEASC are accrediting commissions recognized by the ED.

The accreditation standards of our ACs generally permit an institution's main campus to establish additional campuses. Our campuses that are treated as additional locations of the main campus under the ED's regulations and the ACICS accreditation standards are treated as branch campuses under the accreditation standards of the NEASC. During 2013, the ACICS evaluated our ITT Technical Institute institution with 133 additional locations for a renewal grant of accreditation. In April 2013, the ACICS extended that institution's current grant of accreditation through December 31, 2017. In 2015, the ACICS also approved one ITT Technical Institute location for inclusion in that institution's grant of accreditation. In January 2016, the ACICS awarded our ITT Technical Institute institution with two additional locations a renewal of accreditation through December 31, 2018.

Accreditation Criteria. The HEA specifies a series of criteria that each recognized accrediting commission must use in reviewing institutions. For example, accrediting commissions must assess the length of each academic program offered by an institution in relation to the objectives of the degrees or diplomas offered. Further, accrediting commissions must evaluate each institution's success with respect to student achievement.

Under the ACICS standards, if the student retention or graduate placement rates:

of a campus fall below the ACICS benchmark standards, the campus must develop and implement a campus improvement plan and periodically report its results to the ACICS;

of a campus fall below the ACICS Council standards, the campus must develop and implement a campus improvement plan and come into compliance within a specified time period, or the ACICS may withdraw the campus' inclusion in the institution's grant of accreditation;

of a program offering at a campus fall below the ACICS benchmark standards, the campus must develop and implement a program improvement plan for that program offering; or

of a program offering at a campus fall below the ACICS Council standards, the program offering must develop and implement a campus improvement plan and come into compliance within a specified time period, or the ACICS may withdraw its authorization of that program offering.

Under the ACICS standards, if the Licensure Examination Pass Rate (as defined below) of a program offering that is subject to that standard at a campus:

falls below the ACICS benchmark standards, the campus is required to develop and implement a program improvement plan for that program offering; or

falls below the ACICS Council standards, the program offering is required to come into compliance within a specified time period, or the ACICS may withdraw its authorization of that program offering. A program offering is subject to the Licensure Examination Pass Rate standard, if graduates of the program of study who seek employment are required to have a certificate, license or registration based on an industry-sponsored examination in the applicable field.

A campus that falls below the ACICS benchmark standards is not required to obtain permission from the ACICS prior to applying to add a new program offering, but a campus that falls below the ACICS Council standards is required to obtain permission from the ACICS prior to applying to add a new program offering.

ACICS Institutional and Campus Accountability Report Reviews. In January 2015, the ACICS confirmed that it reviews the Institutional Accountability Report and Campus Accountability Report submitted by each of its accredited institutions to monitor performance in terms of student achievement at both the campus and program levels. Measures include Student Retention Rate, Graduate Placement Rate and the Licensure Examination Pass Rate (each as defined below), if applicable. When this review indicates that student achievement is below ACICS standards, the ACICS will require the institution to add an improvement plan that applies to either a program and/or a campus (an Improvement Plan) within its Campus Effectiveness Plan (CEP). If the ACICS determines the institution no longer complies with the ACICS requirement for student achievement, the ACICS will issue a warning, a show-cause directive, or otherwise take action and require the institution to demonstrate compliance within a specified time frame. Any specified time frame may be extended at the sole discretion of the ACICS for good cause, including evidence that there has been significant improvement in the deficient area(s) and the applicable time frame does not provide sufficient time to demonstrate full compliance (e.g., improvement in Student Retention Rate, Graduate Placement Rate and/or the Licensure Examination Pass Rate).

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Institutions that are required to include an Improvement Plan within their CEPs are considered to be on Student Achievement Monitoring. Those with institutional or campus-level plans may have additional restrictions imposed if determined to be out of compliance.

Campus and Program Improvement Plans and Monitoring. Neither of our two ITT Technical Institute institutions are on probation with the ACICS, but the ACICS has taken the following actions with respect to a number of our campuses and programs:

Campus and Program Improvement Plans and Monitoring		
Student Retention Rate (as defined below)		
	Locations ^(a)	Programs ^(b)
Below Council	31 ^(c)	473 ^(d)
Below Benchmark	76	182
Graduate Placement Rate (as defined below)		
	Locations ^(a)	Programs ^(b)
Below Council	6	313 ^(e)
Below Benchmark	34	174
Licensure Examination Pass Rate (as defined below)		
		Programs ^(b)
Below Council	N/A	19 ^(f)
Below Benchmark	N/A	10

(a) Locations with outcomes Below Benchmark are subject to a campus Improvement Plan. Locations with outcomes Below Council are subject to a campus Improvement Plan and Student Achievement Monitoring and need to:

- i. Raise their Student Retention Rate to at least 60% by November 1, 2016, or the ACICS may withdraw those locations' inclusion in the institution's grant of accreditation; or
- ii. Raise their Graduate Placement Rate to at least 60% by November 1, 2016, or the ACICS may withdraw those locations' inclusion in the institution's grant of accreditation.

(b) Programs with outcomes Below Benchmark are subject to a program Improvement Plan. Programs with outcomes Below Council are subject to a program Improvement Plan and Student Achievement Monitoring and need to:

- i. raise their Student Retention Rate to at least 60% by November 1, 2016, or the ACICS may withdraw its authorization of those program offerings; or
- ii. raise their Graduate Placement Rate to at least 60% by November 1, 2016, or the ACICS may withdraw its authorization of those program offerings; or

- iii. raise their Licensure Examination Pass Rate to at least 60% by November 1, 2016, or the ACICS may withdraw its authorization of those program offerings.

- (c) We are no longer enrolling students at eight of these locations.
 - (d) We have discontinued and are no longer enrolling new students in 175 of these program offerings.
 - (e) We have discontinued and are no longer enrolling new students in 85 of these program offerings.
 - (f) We have discontinued and are no longer enrolling new students in two of these program offerings.
- For purposes of the standards and actions described above, the ACICS uses the following definitions:

Student Retention Rate is a calculated rate defined as Adjusted Total Enrollment, less All Other Withdrawals, divided by Adjusted Total Enrollment. **Adjusted Total Enrollment** is defined as total student enrollment in the program of study during the reporting period, less the number of any of those students who withdrew to enroll in another institution under common ownership. **All Other Withdrawals** is defined by the ACICS as the number of students enrolled in the program of study during the reporting period who withdrew from the program of study for a reason other than the student s:

call to active duty in the U.S. military;

enrollment in another institution under common ownership;

incarceration; or

death.

Graduate Placement Rate is defined as the number of Employable Graduates who were employed in a position that required the direct or indirect use of the skills taught in the program of study during the reporting period, divided by the total number of Employable Graduates.

Licensure Examination Pass Rate is defined as the three-year average of the number of graduates or completers of a program of study that is subject to the Licensure Examination Pass Rate standard who attempted the examination during a calendar year and received a score necessary to obtain the required certificate, license or registration, divided by the number of graduates or completers of that program of study who attempted the applicable examination during that calendar year.

If any of our ITT Technical Institute locations and/or program offerings fall below the Student Retention Rate, Graduate Placement Rate or Licensure Examination Pass Rate compliance standards and we are unable to timely bring those locations and/or program offerings into compliance, we may have to close those locations and reduce the offerings of those programs, which could have a material adverse effect on our growth plans, financial condition, results of operations and cash flows.

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DWC was subject to a notice of concern from the NEASC with respect to DWC's financial condition from June 2009, when we acquired DWC, until April 2011. The NEASC reinstated the notice of concern with respect to DWC's financial condition in March 2013. During 2013 and the first quarter of 2014, the NEASC evaluated DWC in connection with its financial condition, but the NEASC did not remove the notice of concern. In September 2014, the NEASC conducted a focused evaluation visit at DWC to assess, in part, DWC's progress in addressing the issues that led the NEASC to reinstate the notice of concern in 2013. DWC responded to the visit report and attended the NEASC April 2015 meeting. Following DWC's attendance at the NEASC September 2015 meeting, the NEASC issued a continued notice of concern with respect to DWC's financial condition and informed DWC that further determination with respect to compliance and monitoring would be made following the NEASC March 2016 meeting. See Risk Factors [Risks Related to Our Highly Regulated Industry](#) *The failure of DWC to meet the accreditation requirements of NEASC could result in its loss of eligibility to participate in Title IV Programs and possibly its ability to operate,* for additional information regarding the notice of concern and other communications from NEASC.

Reviews and Other Oversight Actions

The internal audit function of our compliance department reviews our campuses' compliance with Title IV Program requirements and conducts an annual compliance review of each of our campuses. The review addresses numerous compliance areas, including:

student tuition refunds and return of Title IV Program funds;

student academic progress;

student admission;

student attendance;

student financial aid applications;

student financial aid awards and disbursements; and

graduate employment.

Each of our institutions' administration of Title IV Program funds must also be audited annually by an independent accounting firm, and the resulting audit report must be submitted to the ED for review.

Due to the highly regulated nature of the postsecondary education industry, we are subject to audits, reviews, inquiries, complaints, investigations, claims of non-compliance and lawsuits by federal and state governmental agencies, the ACs, present and former students and employees, shareholders and other third parties, which may allege violations of statutes, regulations or accreditation standards or common law causes of action (collectively, "Claims"). If the results of any Claims are unfavorable to us, we may be required to pay money damages or be subject to fines,

penalties, injunctions, operational limitations, loss of eligibility to participate in federal or state financial aid programs, debarments, additional oversight and reporting, other civil and criminal penalties or other censure that could have a material adverse effect on our financial condition, results of operations and cash flows. Even if we satisfactorily resolve the issues raised by a Claim, we may have to expend significant financial and management resources, which could have a material adverse effect on our financial condition, results of operations and cash flows. Adverse publicity regarding a Claim could also negatively affect our business.

See Risk Factors Risks Related to Our Highly Regulated Industry for a discussion of particular risks associated with our highly regulated industry.

Shareholder Information

We make the following materials available free of charge through our website at www.ittesi.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC under the Exchange Act:

our annual reports on Form 10-K and all amendments thereto;

our quarterly reports on Form 10-Q and all amendments thereto;

our current reports on Form 8-K and all amendments thereto; and

various other filings that we make with the SEC.

You should be aware that our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 was filed with the SEC after its applicable filing deadline. Failure to timely file our reports with the SEC may have negative consequences. See Risk Factors Risks Related to Our Business *Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital.*

We also make the following materials available free of charge through our website at www.ittesi.com:

our Corporate Governance Guidelines;

the charter for each of the Audit, Compensation, and Nominating and Corporate Governance Committees of our Board of Directors; and

our Code of Business Conduct and Ethics ([Code](#)).

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We will provide a copy of the following materials without charge to anyone who makes a written request to our Investor Relations Department at ITT Educational Services, Inc., 13000 North Meridian Street, Carmel, Indiana 46032-1404 or by e-mail through our website at www.ittesi.com:

our annual report on Form 10-K for the year ended December 31, 2015, excluding certain of its exhibits;

our Corporate Governance Guidelines;

the charter for each of the Audit, Compensation, and Nominating and Corporate Governance Committees of our Board of Directors; and

the Code.

We also intend to promptly disclose on our website at www.ittesi.com any amendments that we make to, or waivers for our Directors or executive officers that we grant from, the Code.

Item 1A. Risk Factors.

In addition to the other information contained in this report, you should consider carefully the following risk factors in evaluating us and our business before making an investment decision with respect to any shares of our common stock. This report contains certain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are based on the beliefs of, as well as assumptions made by and information currently available to, our management. All statements which are not statements of historical fact are intended to be forward-looking statements. The forward-looking statements contained in this report reflect our or our management's current views and are subject to certain risks, uncertainties and assumptions, including, but not limited to, those set forth in the following Risk Factors. Should one or more of those risks or uncertainties materialize or should underlying assumptions prove incorrect, our actual results, performance or achievements in 2016 and beyond could differ materially from those expressed in, or implied by, those forward-looking statements.

Risks Related to Our Highly Regulated Industry

Failure of our campuses to comply with the extensive regulatory requirements for school operations could result in 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 campuses. To participate in Title IV Programs, an institution must receive and maintain authorization by the appropriate SAs, be accredited by an AC recognized by the ED and be certified as an eligible institution by the ED. As a result, our ITT Technical Institute and DWC campuses are subject to extensive regulation by the ED, SAs and ACs, which cover the vast majority of our operations. The ED, SAs and ACs periodically revise their requirements and modify their interpretations of existing requirements. We cannot predict with certainty how all of the requirements applied by these agencies will be interpreted or implemented or whether all of our campuses will be able to comply with all of the requirements in the future.

If our campuses failed to comply with any of these regulatory requirements, these agencies could:

impose monetary fines or penalties on our campuses;

terminate or limit our campuses' operations or ability to award credentials;

restrict or revoke our campuses' accreditation;

limit, terminate or suspend our campuses' eligibility to participate in Title IV Programs or state financial aid programs;

require our campuses to repay funds received under Title IV Programs or state financial aid programs;

require us to post new letters of credit or increase the amount of or extend the duration of the ED Escrowed Funds (as defined below);

increase the level of heightened cash monitoring to which our institutions are already subject by the ED;

transfer our institutions from the ED's heightened cash monitoring system of receiving Title IV Program funds to its reimbursement system, which would significantly delay our institutions' receipt of Title IV Program funds;

place a maximum limit on the amount of Title IV funding that our institutions could receive or a maximum limit on the number of students to whom our institutions could award Title IV program funds;

deny applications for our institutions to obtain Title IV eligibility for new educational programs or new campuses; and

subject us or our campuses to other civil or criminal penalties.

See Business Highly Regulated Industry, for a discussion of the sanctions imposed on us by the ED for our failure to submit our 2013 audited consolidated financial statements and Compliance Audits to the ED by the regulatory deadline, and by our Florida SA as a result of its determination that our 11 campuses in Florida are not financially stable. The sanctions imposed by the ED and our Florida SA or any other sanctions described above that could be imposed by any agencies could materially adversely affect our financial condition, results of operations and cash flows and impose significant operating restrictions on us.

If any of our campuses lost its state authorization, the campus would be unable to offer postsecondary education and we would be forced to close the campus.

If any of our campuses lost its accreditation, it would lose its eligibility to participate in Title IV Programs and, in some states, its ability to operate. If we could not arrange for alternative financing sources for the students attending a campus that lost its eligibility to participate in Title IV Programs, we could be forced to close that campus. Closing multiple campuses could have a

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material adverse effect on our financial condition, results of operations and cash flows. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business. See Business Highly Regulated Industry.

The following are some of the specific risk factors related to our highly regulated industry:

The ED has imposed sanctions and reporting requirements on us, including having to post a letter of credit with the ED (subsequently replaced with a deposit of funds into an ED escrow account), being placed on heightened cash monitoring, being provisionally certified, and various reporting and operational requirements, due to our late submission to the ED of our institutions' 2013 audited consolidated financial statements and Compliance Audits and other reasons, and could impose additional sanctions and requirements on us in the future. Our institutions are subject to extensive regulation by the ED. One of the ED's regulations applicable to our institutions is that each institution must submit to the ED on an annual basis its audited, consolidated financial statements and a Compliance Audit, in each case with respect to a fiscal year within six months of the end of the fiscal year. Our institutions did not submit their 2013 audited consolidated financial statements and Compliance Audits to the ED by the June 30, 2014 due date and, as a result, the ED determined on August 21, 2014 that our institutions were not financially responsible. Based on this determination, the ED, among other things:

required our institutions to submit a letter of credit payable to the ED in the amount of \$79.7 million (the ED Letter of Credit), which subsequently has been replaced by a deposit of funds in the same amount into an escrow account with the ED;

placed our institutions on heightened cash monitoring by the ED, instead of the ED's standard advance payment method;

provisionally certified our institutions to participate in Title IV Programs;

requires our institutions to provide the ED with information about certain oversight and financial events, as described further below;

requires us to be able to demonstrate to the ED that, for our two most recent fiscal years, we were current on our debt payments and our institutions have met all of their financial obligations, pursuant to the ED's standards; and

could require our institutions, in future years, to submit their audited financial statements and Compliance Audits to the ED earlier than six months following the end of their fiscal year.

We caused the ED Letter of Credit to be issued on October 31, 2014 and submitted to the ED. On December 16, 2015, we and the ED entered into an agreement (the ED Agreement), which provides that we would provide funds to the ED for the ED to maintain in an escrow account (ED Escrowed Funds) in lieu of the ED Letter of Credit. On December 17, 2015, we provided to the ED funds in the amount of \$79.7 million, which amount is subject to further adjustment by the ED based upon changes in our annual federal student aid funding, and based on the ED's

determination of the percentage of our annual federal student aid funding that must be maintained. The ED Agreement provides that the ED will maintain the funds provided by us in an escrow account to be used for one or more of the following purposes:

to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;

to provide for the teach-out of students enrolled at the time of closure of our institutions; and

to pay any liabilities owing to the ED arising from acts or omissions by our institutions, on or before November 4, 2019, in violation of requirements set forth in the HEA, including the violation of any agreement entered into by our institutions with the ED regarding the administration of Title IV Programs,

which are the same reasons that funds could have been drawn under the ED Letter of Credit. As was the case with the term of the ED Letter of Credit, the ED will hold the ED Escrowed Funds until November 4, 2019, unless we are notified on or before then of the requirement and reasons that the ED Agreement needs to be extended, to the extent provided in the ED's financial responsibility regulations. We could be required to adjust the amount of the ED Escrowed Funds annually to 10% of the Title IV Program funds received by our institutions in the immediately preceding fiscal year, or such other amount as the ED may specify. As a result of our provision of funds under the ED Agreement, the ED Letter of Credit was cancelled on December 22, 2015.

Under heightened cash monitoring (HCM), before any of our institutions can request or draw down Title IV Program funds from the ED, the institution must:

make disbursements to students and parents for the amount of Title IV Program funds that those students and parents are eligible to receive; and

compile borrower-level records with respect to the disbursement of Title IV Program funds to each student and parent.

Once the HCM requirements as imposed on us in August 2014 were satisfied, our institutions could request or draw down Title IV Program funds from the ED in an amount equal to the actual disbursements made by our institutions. Our institutions will be subject to HCM until at least November 4, 2019. Although we have implemented procedures to address the HCM requirements, we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds or that our institutions will not request or draw down Title IV Program funds from the ED before the HCM requirements are satisfied. If any of our institutions request or draw down Title IV Program funds from the ED before the HCM requirements are satisfied, the ED could impose additional sanctions on our institutions that could have a material adverse effect on our business, financial condition, results of operations and cash flows, including, among other things:

monetary fines or penalties;

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limiting, terminating or suspending our institutions' eligibility to participate in Title IV Programs; and/or

transferring our institutions from the HCM method of receiving Title IV Program funds to the ED's reimbursement system, which would significantly delay our institutions' receipt of Title IV Program funds.

Our institutions' participation in Title IV Programs will continue to be provisional, if our institutions are recertified when their current provisional certifications expire on June 30, 2017, until at least November 4, 2019. Any institution provisionally certified by the ED must apply for and receive approval by the ED for any substantial change, before the institution can award, disburse or distribute Title IV Program funds based on the substantial change. Substantial changes generally include, but are not limited to:

the establishment of an additional location;

an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;

an addition of any non-degree program or short-term training program; or

an addition of a degree program by a proprietary institution.

If an institution applies for the ED's approval of a substantial change, the institution must demonstrate that it has the financial and administrative resources necessary to assure the institution's continued compliance with the ED's standards of financial responsibility and administrative capability. We may be unable to obtain the required approvals from the ED for any new campuses or any new program offerings, or to obtain those approvals in a timely manner. For example, in December 2014, the ED disapproved our application to offer four new degree programs at the ITT Technical Institutes due to administrative capability issues reported in recent compliance audits and ED program reviews, and in March 2015, the ED disapproved two of eight new degree programs that we applied to offer at DWC also due to administrative capability issues. In February 2016, the ED disapproved our request for reconsideration of the two new degree programs we had previously applied to offer at DWC, due to administrative capability issues reported in recent compliance audits. If we are unable to obtain the required approvals from the ED for any new campuses or any new program offerings, or to obtain those approvals in a timely manner, our ability to operate the new campuses or offer new programs as planned would be impaired, which could have a material adverse effect on our growth plans. See *We cannot operate new campuses or offer new programs, if they are not timely authorized by our regulators, and we may have to repay Title IV Program funds disbursed to students enrolled at any of those locations or in any of those programs, if we do not obtain prior authorization, and Failure by one or more of our institutions to satisfy the ED's administrative capability requirements could result in financial penalties, limitations on the institution's participation in the Title IV Programs, or loss of the institution's eligibility to participate in Title IV Programs.*

We are required to provide information to the ED about any of the following events within 10 days of its occurrence:

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any adverse action, including probation or similar action, taken against any of our institutions by its AC, any of its SAs or any federal agency;

any event that causes us to realize any liability that was noted as a contingent liability in our most recent audited financial statements;

any violation by us of any loan agreement;

any failure by us to make a payment in accordance with our debt obligations that results in a creditor filing suit to recover funds under those obligations;

any withdrawal of our shareholders' equity or net assets by any means, including the declaration of a dividend;

any extraordinary loss by us, as defined under Accounting Principles Board Opinion No. 30; or

any filing of a petition by us for relief in bankruptcy court.

Our notice to the ED of the occurrence of any of the above events must include the details of the circumstances surrounding the event and, if applicable, the steps we have taken, or plan to take, to resolve the issue. If we fail to notify the ED within the 10 day reporting period, the ED may impose additional sanctions upon us that could negatively impact our provisional certification.

On May 20, 2015, the ED informed us that, based on our institutions' current reporting status to the ED and due to the SEC's filing of its complaint in the SEC Litigation, the ED was requiring us to comply with additional requirements in order for the ED to more closely monitor our institutions' ongoing participation in the Title IV Programs. The additional requirements are that we have to submit to the ED:

every two weeks, a thirteen-week projected cash flow statement that includes disclosures concerning significant transactions, important financial transactions, planned school closures, anticipated new program offerings, and other matters; and

every month, a roster of students, by campus, that includes information on each student's program of study, program start date and anticipated graduation date, enrollment status, and individual contact information.

Although we have submitted these reports to the ED to date, we cannot assure you that we will be able to continue to submit these reports to the ED according to its schedule. In addition, we cannot assure you that the ED will not impose further sanctions on us in light of the SEC Litigation and other matters.

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On June 8, 2015, we received a letter from the ED requiring that we provide a more detailed thirteen-week projected cash flow statement. In addition, the ED instructed that our business and financial disclosures required by the May 20, 2015 letter should be listed as a component of the thirteen-week projected cash flow statement.

On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures include:

requiring students to attend courses prior to the disbursement of Title IV Program funds to them;

reporting disbursement and refund information as part of the monthly student roster reporting;

providing certification forms regarding the reconciliation of accounts and eligibility of disbursements;
and

other reporting requirements.

These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED. On January 26 and 27, 2016, the ED conducted a program review, where the ED reviewed our disbursement, reconciliation and reporting processes required by its October 19, 2015 letter. We have not received the results of the program review and cannot assure you that the ED will not impose additional requirements on us as a result of their program review.

The sanctions imposed on us by the ED described above could have a material adverse effect on our financial condition, results of operations, cash flows and ability to meet our contractual and regulatory obligations. Further, we cannot assure you that we will be able to fund any required increases in the required ED Escrowed Funds amount. Our provision of the ED Escrowed Funds has, and will continue to have, a material adverse effect on our liquidity, and significantly reduces the amount of cash that we will have available for other purposes, including to satisfy our future payment obligations under the PEAKS Guarantee and the CUSO RSA (collectively, the RSAs). The fact that a significant amount of our cash is being held in connection with the ED Agreement could also negatively affect our ability to satisfy the financial metrics of the ED, SAs and ACs to which we are subject.

Any significant delay in our institutions' receipt of Title IV Program funds could materially adversely affect our financial condition, results of operations and cash flows, and could cause us to be in default of the Financing Agreement (as defined below). Depending on the length of the delay, we cannot assure you that we would be able to continue to operate our business in such an event. The ED may also terminate our institutions' eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business. See also

Restrictive covenants in the Financing Agreement restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility, and any default by us under the Financing Agreement could have a material adverse effect on our liquidity and ability to comply with our

obligations.

The enforcement action by the SEC against us, our CEO and our former CFO could result in the ED or any of the SAs or ACs imposing additional sanctions on our institutions. On May 12, 2015, the SEC filed a civil enforcement action against us, our Chief Executive Officer and our former Chief Financial Officer (the SEC Litigation). See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements for a further discussion of the SEC Litigation.

On May 20, 2015, the ED informed us that, based on our institutions' current reporting status to the ED and due to the SEC's filing of its complaint in the SEC Litigation, the ED was requiring us to comply with additional requirements in order for the ED to more closely monitor our institutions' ongoing participation in the Title IV Programs. The additional requirements are that we have to submit to the ED:

every two weeks, a thirteen-week projected cash flow statement that includes disclosures concerning significant transactions, important financial transactions, planned school closures, anticipated new program offerings, and other matters; and

every month, a roster of students, by campus, that includes information on each student's program of study, program start date and anticipated graduation date, enrollment status, and individual contact information.

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Although we have submitted these reports to the ED to date, we cannot assure you that we will be able to continue to submit these reports to the ED according to its schedule.

Based on the allegations in the SEC's complaint, combined with other regulatory matters our institutions are facing by the ED, the SAs, the ACs and other federal and state agencies, it is possible that the ED or any of the SAs or ACs might impose additional sanctions against us. The ED, the SAs and the ACs have a wide range of sanctions and penalties that they can impose on institutions. See Risks Related to Our Highly Regulated Industry *Failure of our campuses to comply with the extensive regulatory requirements for school operations could result in 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 campuses,* for a discussion of sanctions that the ED, the SAs and the ACs could impose on our institutions as a result of the SEC Litigation.

We cannot assure you that the ED will not impose further sanctions on us in light of the SEC Litigation and other matters.

Action by the U.S. Congress to revise the laws governing the federal student financial aid programs or reduce funding for those programs could reduce our student population and increase our costs of operation. Political and budgetary concerns significantly affect Title IV Programs. The U.S. Congress (Congress) enacted the HEA to be reauthorized on a periodic basis, which most recently occurred in 2008. Congress has begun the legislative process for reauthorizing the HEA, but it is unclear at this time if the reauthorization will be completed in 2016 or later. Until the reauthorization process is completed, the current provisions of the HEA will remain in effect, unless Congress amends any specific provisions.

In addition, Congress can change the laws affecting Title IV Programs in the annual federal appropriations bills and other laws it enacts between the HEA reauthorizations. We cannot predict all of the changes that Congress will ultimately make. Since a significant percentage of our revenue is indirectly derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our campuses or students to participate in Title IV Programs could have a material adverse effect on our financial condition, results of operations and cash flows.

If one or more of our ITT Technical Institute or DWC campuses lost its eligibility to participate in Title IV Programs, or if Congress significantly reduced the amount of available Title IV Program funding, we would try to arrange or provide alternative sources of financial aid for the students at the affected campuses. It is unlikely that private organizations would be willing to provide loans to students attending those campuses or that the interest rate and other terms of those loans would be as favorable as for Title IV Program loans. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

Legislative action may also increase our administrative costs and burden and require us to modify our practices in order for our campuses to comply fully with the legislative requirements, which could have a material adverse effect on our financial condition, results of operations and cash flows.

One or more of our institutions may lose its eligibility to participate in Title IV Programs, if its federal student loan cohort default rates are too high. Under the HEA, an institution may lose its eligibility to participate in some or all Title IV Programs, if the rates at which the institution's students default on their federal student loans exceed specified percentages. The ED calculates these rates for each institution on an annual basis, based on the number of students who have defaulted, not the dollar amount of such defaults. Each institution that participated in the FFEL program and/or FDL program receives a FFEL/FDL cohort default rate for each federal fiscal year (FFY) based on defaulted

FFEL and FDL program loans. A FFY is October 1 through September 30. The ED calculates an institution's annual cohort default rate as the rate at which borrowers scheduled to begin repayment on their loans in one FFY default on those loans by the end of the second succeeding FFY (Three-Year CDR).

The ED began calculating a Three-Year CDR for each institution for FFY 2009, and the ED issued those FFY 2009 Three-Year CDRs in 2012. If an institution's Three-Year CDR is:

30% or greater for three consecutive FFYs, the institution loses eligibility to participate in the FDL program and the Pell program for the remainder of the FFY in which the ED determines that the institution has lost its eligibility and for the two subsequent FFYs; or

greater than 40% for one FFY, the institution loses eligibility to participate in the FDL programs for the remainder of the FFY in which the ED determines that the institution has lost its eligibility and for the two subsequent FFYs.

In addition, the ED may place an institution on provisional certification status, if the institution's official Three-Year CDR is 30% or greater for at least two of the three most recent FFYs. The ED may more closely review an institution that is provisionally certified, if it applies for approval to open a new location or offer a new program of study that requires approval, or makes some other significant change affecting its eligibility. See *The ED has imposed sanctions and reporting requirements on us, including having to post a letter of credit with the ED (subsequently replaced with a deposit of funds into an ED escrow account), being placed on heightened cash monitoring, being provisionally certified, and various reporting and operational requirements, due to our late submission to the ED of our institutions' 2013 audited consolidated financial statements and Compliance Audits and other reasons, and could impose additional sanctions and requirements on us in the future*, for further information concerning the impact on an institution of being placed on provisional certification by the ED.

The following table sets forth the average of our institutions' Three-Year CDRs for the FFYs indicated, as reported by the ED:

FFY	Three-Year CDR Average
2013 ^(a)	18.9%
2012 ^(b)	18.7%
2011	22.1%
2010	28.5%

- (a) The most recent year for which the ED has issued preliminary Three-Year CDRs. The ED's regulations afford institutions the opportunity to challenge or correct their preliminary Three-Year CDRs before those rates are official.
- (b) The most recent year for which the ED has published official Three-Year CDRs.

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We believe that the higher Three-Year CDR average for FFY 2010 compared to the official Three-Year CDR averages for FFY 2011 and FFY 2012 was primarily due to the servicing on the FFEL program loans that were purchased by the ED from the lenders (the Purchased Loans) during 2009 and 2010. The Purchased Loans were initially serviced by the FFEL program lenders that made those loans, until the Purchased Loans were sold to the ED. Upon receipt of the Purchased Loans, the ED transferred the servicing of those loans to the servicer of the FDL program loans. Shortly thereafter, the ED replaced the servicer of the FDL program loans with four different servicers, and servicing of the Purchased Loans was distributed among the new servicers of the FDL program loans. We believe that the changes in the servicers of the Purchased Loans had a negative impact on the servicing of those loans, which could have resulted in a higher Three-Year CDR average with respect to those loans.

An institution can appeal its loss of eligibility that is based on exceeding one of the Three-Year CDR thresholds described above. During the pendency of any such appeal, the institution remains eligible to participate in the FDL and Pell programs. If an institution continues its participation in the FDL program during the pendency of any such appeal and the appeal is unsuccessful, the institution must pay the ED the amount of interest, special allowance, reinsurance and any related payments paid by the ED (or which the ED is obligated to pay) with respect to the FDL program loans made to the institution's students or their parents that would not have been made if the institution had not continued its participation (the Direct Costs). If a substantial number of our campuses were subject to losing their eligibility to participate in the FDL and Pell programs because of our institutions' high Three-Year CDRs, the potential amount of the Direct Costs for which we would be liable if our appeals were unsuccessful would prevent us from continuing some or all of the affected campuses' participation in the FDL program during the pendency of those appeals, which would have a material adverse effect on our financial condition, results of operations and cash flows.

Current and future economic conditions in the United States could also adversely affect our institutions' Three-Year CDRs. Increases in interest rates, declines in individuals' incomes and job losses for our students and graduates or their parents have contributed to, and could continue to contribute to, higher default rates on student loans.

The servicing and collection efforts of student loan servicers help to lower our institutions' Three-Year CDRs. We supplement their efforts by attempting to contact students to advise them of their responsibilities and any deferment, forbearance or alternative repayment plans for which they may qualify.

If any of our institutions lost its eligibility to participate in the FDL and Pell programs and we could not arrange for alternative financing sources for the students attending the campuses in that institution, we would probably have to close those campuses, which would have a material adverse effect on our financial condition, results of operations and cash flows. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

If any of our programs of study fail to qualify as programs that lead to gainful employment in a recognized occupation under the ED's regulations, students attending those programs of study will be unable to use Title IV Program funds to help pay their education costs. On October 31, 2014, the ED issued final regulations that took effect July 1, 2015, specifying requirements related to programs of study that are intended to lead to gainful employment in a recognized occupation (the New GE Rule). Those requirements include two debt-to-earnings rates (D/E Rates) to be calculated every year, consisting of a debt-to-annual earnings (aDTE) rate and a debt-to-discretionary income (dDTI) rate.

The aDTE rate is calculated by comparing (i) the annual loan payment required on the median student loan debt incurred by students receiving Title IV Program funds who completed a particular program and (ii) the higher of the mean or median of those graduates' annual earnings approximately two to four years after they graduate, to arrive at a percentage rate. The dDTI rate is calculated by comparing (i) the annual loan payment required on the median student

loan debt incurred by students receiving Title IV Program funds who completed a particular program and (ii) the higher of the mean or median of those graduates' discretionary income approximately two to four years after they graduate to arrive at a percentage rate. The ED receives the earnings data used to calculate the aDTE and dDTI rates from the Social Security Administration (SSA). Institutions do not have access to the SSA earnings information.

A program must achieve an aDTE rate at or below 8%, or a dDTI rate at or below 20%, to be considered passing. A program that does not have a passing rate under either the aDTE or dDTI rates, but has an aDTE rate greater than 8% but less than or equal to 12%, or a dDTI rate greater than 20% but less than or equal to 30%, is considered in the zone. A program with an aDTE rate greater than 12% and a dDTI rate greater than 30%, is considered failing. A program will cease to be eligible for students to receive Title IV Program funds, if its aDTE rate and dDTI rate are failing in two out of any three consecutive award years or both of those rates are either failing or in the zone for four consecutive award years for which the ED calculates D/E Rates. An award year under the Title IV Programs begins on July 1st and ends on June 30th of the immediately succeeding calendar year.

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If a program could become ineligible for students to use Title IV Program funds based on its D/E Rates for the next award year, which could occur based on the program's D/E Rates for a single year, the institution must:

deliver a warning to current and prospective students in that program at the prescribed time and by a prescribed method which, among other things, states that students may not be able to use Title IV Program funds to attend or continue to attend the program (Warning); and

not enroll, register or enter into a financial commitment with a prospective student in the program, until three business days after (a) a Warning is provided to the prospective student or (b) a subsequent Warning is provided to the prospective student, if more than 30 days have passed since the initial Warning was first provided to the prospective student.

The New GE Rule also requires institutions to make additional public disclosures and report additional information to the ED with respect to each program that leads to gainful employment in a recognized occupation. We believe that the additional disclosure and reporting requirements will be administratively burdensome, will increase our compliance costs, and could cause fewer students to enroll in our programs of study. We reported to the ED the data for award years 2008-09 through 2014-15, which had submission deadlines of July 31, 2015 and October 1, 2015. Following our initial submissions, the ED notified us that certain elements of our reporting required revision and resubmission. We have resubmitted all required data as the ED has directed, and are in the process of correcting individual discrepancies on selected student records.

The ED had estimated that it would be able to release draft D/E Rates to institutions in the summer of 2016. However, there have been several delays in the initial steps of ED's D/E Rates calculation timeline, so draft D/E Rates will likely not be released until the fall of 2016. Institutions will have limited opportunities to challenge these draft D/E Rates before final D/E Rates are released in 2017.

If a program becomes ineligible for students to use Title IV Program funds, or if the institution chooses to discontinue a program after it receives draft or final D/E Rates that are failing or in the zone for a single award year, the institution cannot seek to reestablish the eligibility of that program, or establish the eligibility of a similar program, based on having a classification of instructional program (CIP) code that has the same first four digits as the CIP code of the ineligible program, until three years following the date on which the program became ineligible or was discontinued.

We cannot predict with any certainty which or how many of our programs of study may become ineligible or subject to a Warning under the New GE Rule, because we do not have access to the earnings data for students that the ED will use to calculate D/E Rates. While we are evaluating the potential impact of the New GE Rule, we cannot predict what the impact will be on our operations. Compliance with the New GE Rule could reduce our enrollments, increase our cost of doing business and have a material adverse effect on our business, financial condition, results of operations and cash flows.

In response to the predecessor of the New GE Rule that was issued in 2011, we made significant changes to the programs of study that we offer. This prior rule also put downward pressure on our tuition prices, to help prevent students from incurring debt that exceeded the levels required for a program to remain eligible for students to receive Title IV Program funds. This, in turn, increased the percentage of our revenue that is derived from Title IV Programs, which could adversely impact our compliance with other ED regulations. We have also limited enrollment in certain programs of study and substantially increased our efforts to promote student loan repayment. These pressures and other factors are likely to continue under the New GE Rule. Any or all of these factors could reduce our enrollment

and/or increase our cost of doing business, perhaps materially, which could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows and stock price.

In November 2014, two organizations of schools filed separate lawsuits against the ED in federal courts seeking to have the New GE Rule invalidated. One lawsuit was filed by the Association of Private Sector Colleges and Universities (APSCU), which represents more than 1,400 for-profit institutions nationwide, and the other lawsuit was filed by the Association of Proprietary Colleges (APC), which represents more than 20 for-profit colleges in the state of New York. The lawsuits alleged, among other things, that the New GE Rule exceeded the ED's statutory authority, violated institutions' constitutional rights, and was arbitrary and capricious. On June 23, 2015, the federal district court in the lawsuit filed by APSCU rejected APSCU's claims and granted summary judgment in favor of the ED, and on May 27, 2015, the federal district court in the lawsuit filed by APC rejected APC's claims and granted summary judgment in favor of the ED. On March 8, 2016, the U.S. Court of Appeals for the District of Columbia rejected APSCU's claims and affirmed the district court's judgment in favor of the ED. No court has delayed the effective date of the New GE Rule and therefore the New GE Rule became effective July 1, 2015.

We may be subject to sanctions, including an increase in the amount of the ED Escrowed Funds, and other limitations in order to continue our campuses' participation in Title IV Programs, state authorization and accreditation, if we or our campuses do not meet the financial standards of the ED, SAs or ACs. The ED, SAs and ACs prescribe specific financial standards that an institution must satisfy to participate in Title IV Programs, operate in a state and be accredited. The ED evaluates institutions for compliance with its financial responsibility standards each year, based on the institution's annual audited financial statements, as well as following any change of control of the institution and when the institution is reviewed for recertification by the ED. In evaluating an institution's compliance with the financial responsibility standards, the ED may examine the financial statements of the individual institution, the institution's parent company or any party related to the institution. Historically, the ED has evaluated the financial condition of our institutions on a consolidated basis, based on our financial statements at the parent company level.

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The most significant ED financial responsibility measurement is the institution's composite score, which is calculated by the ED based on three ratios:

the equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;

the primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and

the net income ratio, which measures the institution's ability to operate at a profit.

The ED assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The ED then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution (the Composite Score). The Composite Score must be at least 1.5 for the institution to be deemed financially responsible by the ED without the need for further oversight.

Our institutions' Composite Score, based on our fiscal year consolidated financial statements at the parent company level, was 1.8 in 2012.

In calculating our institutions' 2013 Composite Score, we believe that an exclusion for the effect of a change in accounting estimate related to the CUSO RSA should be available under the ED's financial responsibility regulations, which would cause our 2013 Composite Score to be higher than if that exclusion was not permitted.

On January 28, 2015, we received a letter from the ED stating that it does not agree with our position concerning that exclusion, resulting in a determination by the ED that our institutions' 2013 Composite Score was 0.9. As a result of this determination, the ED indicated that our institutions failed to comply with the ED's financial responsibility standards. Due to our failure to submit our 2013 audited consolidated financial statements and Compliance Audits to the ED by the ED's June 30, 2014 deadline, the ED had previously determined that we failed to comply with the ED's financial responsibility standards for that reason and imposed penalties on us including being placed on provisional certification, having to request Title IV funds from the ED under the Heightened Cash Monitoring 1 method of payment, and requiring us to post a letter of credit with the ED in the amount of \$79.7 million (which was subsequently replaced with a deposit of funds in the same amount into an ED escrow account under the ED Agreement). We are already subject to the same sanctions and penalties that the ED normally imposes on institutions that fail to have a Composite Score of at least 1.5, and the ED's determination that our institutions have a 2013 Composite Score of 0.9 did not result in additional sanctions or penalties from the ED against us or our institutions, but we cannot assure you that the ED will not impose additional sanctions or penalties.

We disagree with the ED's determination regarding our institutions' 2013 Composite Score, and we believe that our institutions' 2013 Composite Score is above 1.5. We provided a written response to the ED requesting that the ED reconsider its calculation of our institutions' 2013 Composite Score and offered to meet with the ED to discuss this matter. The ED made a written request for additional information from us, to which we responded on March 25, 2015. On April 15, 2015, the ED reaffirmed its determination that our consolidated financial statements for the fiscal year ended December 31, 2013 yield a Composite Score of 0.9 out of a possible 3.0. On July 10, 2015, we submitted a written appeal to the ED of the ED's April 15, 2015 determination, in which we explained in detail why we believe our

institutions 2013 Composite Score is above 1.5. We cannot assure you that the ED will agree with our position on this matter.

Based on our 2014 fiscal year consolidated financial statements at the parent company level, prior to the Restatements, our institutions Composite Score for 2014 was 2.2, which was confirmed by the ED by letter dated December 10, 2015. We believe our Composite Score for 2014 after the Restatements was 2.0. Based on our calculations using our 2015 fiscal year consolidated financial statements, we believe our Composite Score for 2015 was 2.2.

The ED Escrowed Funds that the ED is holding might be accepted to satisfy any additional letter of credit requirement, but there can be no assurance that the ED would not require us to increase the amount of the ED Escrowed Funds based on our institutions 2013 Composite Score. Any significant delay in our institutions receipt of Title IV Program funds due to the penalties that the ED has imposed on us could adversely affect our financial condition, results of operations, liquidity and cash flows, could cause us to be in default of the Financing Agreement and could negatively impact our ability to satisfy our payment obligations under contractual arrangements, including the RSAs and the Financing Agreement. Depending on the length of the delay, we cannot assure you that we would be able to continue to operate our business in such an event. If the ED requires us to increase the amount of the ED Escrowed Funds or to provide a letter of credit payable to the ED, we cannot assure you that we would be able to do so, or that, in the case of a required letter of credit, we would be able to provide the cash collateral necessary to obtain that letter of credit.

The SA s financial standards include a variety of financial metrics and ratios, including, without limitation, positive net working capital, positive net worth, operating profit, one-to-one ratio of assets to liabilities and/or one-to-one ratio of current assets to current liabilities. In addition, some of the ACs and SAs to which we are subject can impose sanctions and penalties against us and our institutions if the ED calculates our Composite Score under the ED regulations to be below 1.5, including requiring us to post separate letters of credit for their benefit, or suspending or terminating our campuses authority to operate. Any sanctions or penalties imposed by the ACs and SAs could have a material adverse effect on our financial condition, results of operations, and cash flows. Our institutions violated the financial standards of the SAs in Florida, Pennsylvania, Tennessee, Texas and West Virginia, due to

the PEAKS Consolidation;

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our institutions' failure to submit their 2013 audited consolidated financial statements to the SAs by the applicable due dates; and/or

other factors.

As a result of these violations, our:

Florida SA:

changed the authorization to operate for each of our 11 campuses in Florida from an annual license to a provisional license, through March 31, 2016;

told us that it would conduct an on-site visit of each of our Florida campuses to determine the campus' compliance with our Florida SA's regulations;

told us that it would require each of our Florida campuses to correct any deficiencies noted during our Florida SA's on-site visit of the campus;

required us to submit to our Florida SA any correspondence that we or any of our institutions have with the ED or the AC of our Florida campuses, within 15 days of the submission or receipt of that correspondence;

required each of our Florida campuses to submit a train-out plan to our Florida SA on or before September 4, 2014; and

required us to report to our Florida SA, at its September 2014 meeting, on the stability of our Florida campuses and any changes that may further affect our stability or operations;

Pennsylvania SA could:

place each of our seven campuses in Pennsylvania on quarterly financial reporting;

require each of our Pennsylvania campuses to submit to our Pennsylvania SA a teach-out plan with respect to all of the campus' programs;

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require each of our Pennsylvania campuses to submit to our Pennsylvania SA a business plan with respect to the campus operations;

raise the required amount of the surety bond that each of our Pennsylvania campuses are required to post for the benefit of our Pennsylvania SA; and/or

suspend or revoke each of our Pennsylvania campuses authorization to operate as an educational institution in Pennsylvania;

Tennessee SA could:

assess monetary fines against each of our five campuses in Tennessee;

require each of our Tennessee campuses to submit to our Tennessee SA an audit of the campus financial stability that is conducted in accordance with generally accepted auditing standards in the United States;

revoke or change each of our Tennessee campuses authorization to operate as an educational institution in Tennessee; and/or

suspend or terminate all or any portion of our Tennessee campuses operations in Tennessee, including, without limitation, new student enrollment, advertising and/or teaching specific programs;

Texas SA could:

assess an administrative penalty;

revoke our Texas campuses certificates of approval;

place conditions on our Texas campuses certificates of approval;

suspend the admission of students to our Texas campuses or programs;

deny program approvals for our Texas campuses;

deny, suspend or revoke the registration of our Texas campuses representatives;

apply for an injunction against our Texas campuses;

ask the attorney general to collect a civil penalty for violation of state law or regulations; and/or

order a peer review of our Texas campuses; and

West Virginia SA could:

raise the amount of the surety bond that our one campus in West Virginia needs is required to post for the benefit of our West Virginia SA;

call the surety bond that our West Virginia campus posted for the benefit of our West Virginia SA;

suspend, withdraw or revoke our West Virginia campus authorization to operate or solicit students in West Virginia;

change our West Virginia campus authorization to operate in West Virginia to a probationary authorization;

require our West Virginia campus to refund its students tuition and fees; and/or

take any other action against our West Virginia campus that our West Virginia SA deems appropriate.

If some or all of the sanctions described above were imposed on many of the affected campuses, those sanctions would have a material adverse effect on our financial condition, results of operations, liquidity and cash flows.

One or more of our institutions may have to post a letter of credit or be subject to other sanctions if it does not correctly calculate and return within the required time frame Title IV Program funds for, or refund monies paid by or on behalf of, students

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who withdraw before completing their program of study. The HEA and its implementing regulations impose limits on the amount of Title IV Program funds withdrawing students can use to pay their education costs (the Return Policy). The Return Policy permits a student to use only a pro rata portion of the Title IV Program funds that the student would otherwise be eligible to use, if the student withdraws during the first 60% of any period of enrollment. For the vast majority of our campuses, a period of enrollment is generally an academic quarter. The institution must calculate and return to the ED any Title IV Program funds that the institution receives on behalf of a withdrawing student in excess of the amount the student can use for such period of enrollment. The institution must return those unearned funds in a timely manner which is generally within 45 days of the date the institution determined that the student had withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of the ED or be otherwise sanctioned by the ED. An institution is required to post a letter of credit with the ED in an amount equal to 25% of the total dollar amount of unearned Title IV Program funds that the institution was required to return with respect to withdrawn students during its most recently completed fiscal year, if the institution is found in an audit or program review to have untimely returned unearned Title IV Program funds with respect to 5% or more of the students in the audit or program review sample of withdrawn students, in either of its two most recently completed fiscal years. As of December 31, 2015, no audit or program review had found that any of our institutions violated the ED's standard on the timely return of unearned Title IV Program funds so as to require the posting of a letter of credit with the ED. On January 26 and 27, 2016, the ED conducted a program review, where the ED reviewed our disbursement, reconciliation and reporting processes required by its October 19, 2015 letter. We have not received the results of the program review and cannot assure you that the ED will not impose additional requirements on us as a result of its program review. The requirement to post a letter of credit or other sanctions by the ED could increase our cost of regulatory compliance and adversely affect our results of operations. Further, we cannot assure you that our institutions would be able to submit a letter of credit payable to the ED in the amount required by the ED, or that we would be able to provide the cash collateral required to maintain any letter of credit.

The standards of most of the SAs and the ACs limit a student's obligation to an institution for tuition and fees, if a student withdraws from the institution (the Refund Policies). The specific standards vary among the SAs. Depending on when, during an academic term, a student withdraws and the applicable Refund Policies, in many instances the student remains obligated to the institution for some or all of the student's education costs that were paid by the Title IV Program funds returned under the Return Policy. In these instances, many withdrawing students are unable to pay all of their education costs, unless the students have access to other sources of financial aid. Our experience has been that many of our affected students do not have access to other sources of financial aid and that we have been unable to collect a significant portion of many withdrawing students' education costs that would have been paid by Title IV Program funds that were returned, which, in the aggregate, have had and may continue to have a material adverse effect on our results of operations and cash flows.

One or more of our institutions may lose its eligibility to participate in Title IV Programs, if the percentage of its revenue derived from those programs is too high. Under a provision of the HEA commonly referred to as the 90/10 Rule, a proprietary institution may be sanctioned if, on a cash accounting basis, the institution derives more than 90% of its applicable revenue in a fiscal year from Title IV Programs. If an institution exceeds the 90% threshold for any single fiscal year, the ED would place that institution on provisional certification status for the institution's following two fiscal years, unless the institution's participation in Title IV Programs ends sooner. In addition, if an institution exceeds the 90% threshold for two consecutive fiscal years, it would be ineligible to participate in Title IV Programs as of the first day of the following fiscal year and would be unable to apply to regain its eligibility until the end of the second subsequent fiscal year. Furthermore, if one of our institutions exceeded the 90% threshold for two consecutive fiscal years and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the ED could require the institution to repay, with limited exceptions, all Title IV Program funds disbursed by the institution after the effective date of the loss of eligibility.

For our 2015 fiscal year, none of our institutions derived more than approximately 80% of its applicable revenue on a cash accounting basis from Title IV Programs under the 90/10 Rule calculation. Any changes in federal law that increase Title IV Program grant or loan limits, or that count funds other than Title IV Program funds toward the 90% limit, may result in an increase in the percentage of revenue that we indirectly derive from Title IV Programs, which could make it more difficult for us to satisfy the 90/10 Rule.

A significant portion of the veterans' educational benefits that our students receive from the VA and state agencies administering those funds is included in our non-Title IV revenue for purposes of the 90/10 Rule. If a portion of our veteran students' educational benefits that are included in our non-Title IV revenue for purposes of the 90/10 Rule is no longer available, the percentage of our revenue from Title IV sources could increase, and if a material amount of such VA funding is no longer available, the percentage of our revenue from Title IV sources could materially increase, which could make it more difficult for us to satisfy the 90/10 Rule. See *Our campuses' failure to comply with the requirements for receiving veterans' educational benefits or Department of Defense tuition assistance program funds could result in their loss of eligibility to receive such benefits and funds, which could materially and adversely affect our business.*

We regularly monitor compliance with the 90/10 Rule to minimize the risk that any of our institutions would derive more than the maximum allowable percentage of its applicable revenue from Title IV Programs for any fiscal year. If an institution appeared likely to approach the maximum percentage threshold, we would consider making changes in student financing to comply with the 90/10 Rule, but we cannot assure you that we would be able to do this in a timely manner or at all. If any of our institutions lost its

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eligibility to participate in Title IV Programs and we could not arrange for alternative financing sources for the students attending the campuses in that institution, we would probably have to close those campuses, which could have a material adverse effect on our financial condition, results of operations and cash flows. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

Failure by one or more of our institutions to satisfy the ED's administrative capability requirements could result in financial penalties, limitations on the institution's participation in Title IV Programs, or loss of the institution's eligibility to participate in Title IV Programs. To participate in Title IV Programs, an institution must satisfy criteria of administrative capability prescribed by the ED. These criteria include requirements that the institution:

demonstrate a reasonable relationship between the length of its programs and the entry-level job requirements of the relevant fields of employment;

comply with all of the applicable Title IV Program regulations prescribed by the ED;

have capable and sufficient personnel to administer the institution's participation in Title IV Programs;

define and measure the satisfactory academic progress of its students within parameters specified by the ED;

provide adequate financial aid counseling to its students who receive Title IV Program funds; and

timely submit all required reports and financial statements to the ED.

If the ED determines that an institution is not capable of adequately administering its participation in any of the Title IV Programs, the ED could, among other things:

impose monetary fines or penalties on the institution;

require the institution to repay funds received under Title IV Programs;

transfer the institution from the advance method of payment of Title IV Program funds to the heightened cash monitoring or reimbursement system of payment; or

limit or terminate the institution's eligibility to participate in Title IV Programs.

Any of these sanctions could adversely affect our financial condition, results of operations and cash flows and impose significant operating restrictions on us. Further, the ED can disapprove new educational program applications for administrative capability reasons. For example, in December 2014, the ED disapproved our application to offer four new degree programs at the ITT Technical Institutes due to administrative capability issues reported in recent Compliance Audits and ED program reviews, and in March 2015, the ED disapproved two of eight new degree programs that we applied to offer at DWC also due to administrative capability issues. In February 2016, the ED disapproved our request for reconsideration of the two new degree programs we had previously applied to offer at DWC, due to administrative capability issues reported in recent compliance audits. Our institutions' 2014 Compliance Audits, which were submitted to the ED in June 2015, contained findings in some areas that were similar to or the same as some of the findings in the preceding years' Compliance Audits.

On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures include: requiring students to attend courses prior to the disbursement of Title IV Program funds to them; reporting disbursement and refund information as part of the monthly student roster reporting; providing certification forms regarding the reconciliation of accounts and eligibility of disbursements; and other reporting requirements. These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED. On January 26 and 27, 2016, the ED conducted a program review, where the ED reviewed our disbursement, reconciliation and reporting processes required by its October 19, 2015 letter. We have not received the results of the program review, and cannot assure you that the ED will not impose additional requirements as a result of its program review.

In addition, for 2014 and subsequent years, an institution is deemed by the ED to lack administrative capability if its Three-Year CDR equals or exceeds 30% for at least two of the three most recent federal fiscal years for which such rates have been published. If an institution's administrative capability is impaired solely because its Three-Year CDRs equal or exceed the applicable percentage, the institution can continue to participate in Title IV Programs, but the ED may place the institution on provisional certification.

We are subject to sanctions, if we pay impermissible commissions, bonuses or other incentive payments to individuals or entities involved in certain recruiting, admission or financial aid activities. The ED's regulations prohibit an institution participating in Title IV Programs from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the awarding of Title IV Program funds (the Incentive Compensation Prohibition). We believe that the Incentive Compensation Prohibition:

does not establish clear criteria for compliance in all circumstances, and the ED will not entertain a request by an institution for the ED to review and assess its individual compensation plan;

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may subject us to qui tam lawsuits for alleged violations of the False Claims Act, 31 U.S.C. § 3729 *et seq.* (False Claims Act);

adversely affects our ability to compensate our employees based on their performance of their job responsibilities, which makes it more difficult to attract and retain highly-qualified employees; and

impairs our ability to sustain and grow our business.

We cannot be sure that the compensation that we have paid our employees will not be determined to violate the Incentive Compensation Prohibition. If the ED determines that our compensation practices violate the Incentive Compensation Prohibition, the ED could subject us to substantial monetary fines or penalties or other sanctions. We could also be subjected to qui tam lawsuits for alleged violations of the False Claims Act related to the Incentive Compensation Prohibition. Any of those sanctions and lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows and future growth. For example, in January 2016, a court issued an order unsealing a qui tam False Claims Act complaint against us which alleges, among other things, that we violated the False Claims Act by receiving Title IV Program funds in violation of the Incentive Compensation Prohibition and other ED regulations, and also asserts a claim of retaliation. The complaint has not been served on us.

In November 2015, the ED announced that, in response to a decision in a court case challenging some aspects of the Incentive Compensation Prohibition, the ED had reconsidered its interpretation of the law and no longer interprets the regulations to prohibit compensation for recruiters that is based upon students' graduation from or completion of their educational programs. As a result, in January 2016, we added an objective under the short-term compensation element of our executive compensation program, which objective is based on the graduation rate of ITT Technical Institute students. The ED has stated, however, that it reserves the right to take enforcement action against institutions if compensation labeled by an institution as graduation-based or completion-based compensation is merely a guise for enrollment-based compensation, which continues to be prohibited. Any determination by the ED that our use of a graduation rate-based objective in our compensation programs, or the application thereof, violates the Incentive Compensation Prohibition could subject us to substantial monetary fines or penalties or other sanctions, and the uncertainty around the permissibility of the use or application of such an objective could subject us to additional qui tam lawsuits alleging violations of the False Claims Act related to the Incentive Compensation Prohibition.

We cannot operate new campuses or offer new programs, if they are not timely authorized by our regulators, and we may have to repay Title IV Program funds disbursed to students enrolled at any of those locations or in any of those programs, if we do not obtain prior authorization. Our growth plans assume that we will be able to continue to obtain the necessary authorization from the ED, ACs and SAs to establish new campuses and expand or revise program offerings in a timely manner. If we are unable to obtain the required authorizations from the ED, ACs or SAs for any new campuses or any new or revised program offerings, or to obtain such authorizations in a timely manner, our ability to operate the new campuses or offer new or revised programs as planned would be impaired, which could have a material adverse effect on our growth plans.

The process of obtaining any required SA and AC authorizations can also delay our operating new campuses or offering new programs. The status of our institutions and the state laws and regulations in effect in the states where we are located or anticipate establishing a new location or the ACs standards may limit our ability to establish new campuses and expand the programs offered at a campus, which could have a material adverse effect on our growth plans.

In addition, an institution that is eligible to participate in Title IV Programs may add a new location or education program without the ED's approval only if certain requirements are met. Otherwise, the institution must obtain the ED's approval before it may disburse Title IV Program funds to students in the new location or education program. If we were to erroneously determine that a new location or education program is eligible for Title IV Program funding, we would likely be liable for repayment of the Title IV Program funds provided to students in that location or program.

Due to our institutions' failure to submit their 2013 audited consolidated financial statements and Compliance Audits to the ED by the June 30, 2014 due date, all of our institutions are provisionally certified to participate in Title IV Programs. Any institution provisionally certified by the ED must apply for and receive approval by the ED for any substantial change before the institution can award, disburse or distribute Title IV Program funds based on the substantial change. Substantial changes generally include, but are not limited to:

the establishment of an additional location;

an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;

an addition of any non-degree program or short-term training program; or

an addition of a degree program by a proprietary institution.

In December 2014, the ED informed us that it had disapproved our application to offer four new degree programs at the ITT Technical Institutes due to administrative capability issues reported in recent Compliance Audits and ED program reviews. The ED also told us that we could reapply for these programs when we demonstrated improved performance in those areas. Although we believe that we have made improvements in the areas identified by the ED and we intend to reapply to the ED for approval to offer these programs in the future, we cannot assure you that the ED will approve that re-application or that the ED will permit us to apply for a third time if the re-application is not approved. In addition, in March 2015, the ED approved six and disapproved two new degree programs that we had applied to offer at Daniel Webster College. The basis for disapproval was due to administrative capability issues

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reported in recent compliance audits and ED program reviews. In February 2016, the ED disapproved our request for reconsideration of the two new degree programs we had previously applied to offer at DWC, due to administrative capability issues reported in recent compliance audits. Our institutions' 2014 Compliance Audits, which were submitted to the ED in June 2015, contained findings in some areas that were similar to or the same as some of the findings in the preceding years' Compliance Audits.

See *If any of our programs of study fail to qualify as programs that lead to gainful employment in a recognized occupation under the ED's regulations, students attending those programs of study will be unable to use Title IV Program funds to help pay their education costs,* regarding additional program approval requirements that are contained in the New GE Rule.

Failure by any of our campuses or program offerings to satisfy the ACICS Council standards with respect to Student Retention Rates, Graduate Placement Rates or Licensure Examination Pass Rates could cause us to close those campuses and reduce the offerings of those programs. Under the standards of the ACICS, if the Student Retention Rate or Graduate Placement Rate:

of a campus falls below the ACICS benchmark standards, the campus is required to develop and implement a campus improvement plan and periodically report its results to the ACICS;

of a campus falls below the ACICS Council standards, the campus is required to develop and implement a campus improvement plan and come into compliance within a specified time period, or the ACICS may withdraw the campus' inclusion in the institution's grant of accreditation;

of a program offering at a campus falls below the ACICS benchmark standards, the campus is required to develop and implement a program improvement plan for that program offering; or

of a program offering at a campus falls below the ACICS Council standards, the program offering is required to develop and implement a campus improvement plan and come into compliance within a specified time period, or the ACICS may withdraw its authorization of that program offering.

The ACICS has also implemented standards related to Licensure Examination Pass Rates that apply to programs of study that have graduates who, if they seek employment, are required to have a certificate, licensure or registration based on an industry-sponsored examination in the applicable field. Under the ACICS standards, if the Licensure Examination Pass Rate:

of a program offering at a campus falls below the ACICS benchmark standards, the campus is required to develop and implement a program improvement plan for that program offering; or

of a program offering at a campus falls below the ACICS Council standards, the program offering is required to develop and implement a campus improvement plan and come into compliance within a specified time period, or the ACICS may withdraw its authorization of that program offering.

A campus that falls below the ACICS benchmark standards is not required to obtain permission from the ACICS prior to applying to add a new program offering, but a campus that falls below the ACICS compliance standards is required to obtain permission from the ACICS prior to applying to add a new program offering. See *Business Highly Regulated Industry Regulation by Accrediting Commissions* for a description of ACICS review of and actions related to our campuses and programs.

If any of our ITT Technical Institute locations and/or program offerings fall below the Student Retention Rate, Graduate Placement Rate or Licensure Examination Pass Rate standards and we were unable to timely bring those locations and/or program offerings into compliance, we may have to close those locations and reduce the offerings of those programs, which could have a material adverse effect on our growth plans, financial condition, results of operations and cash flows.

The failure of our programs of study offered in any state to qualify as credit hour programs, as opposed to clock hour programs, under the ED's regulations would likely result in our students who attend those programs receiving less funds from Title IV Programs, may result in fewer students attending those programs and could result in financial penalties. The ED's regulations related to determining when a program of study is required to measure student progress in clock hours for Title IV funding purposes, despite being approved by other regulatory agencies to be offered in credit hours, are complex. Students attending credit hour programs of study that are required to be measured in clock hours for Title IV purposes often receive less funds from Title IV Programs to pay their cost of education with respect to those programs of study. Students interested in those programs of study may have to use more expensive private financing to pay their cost of education or may be unable to enroll in those programs of study. Students may determine that they do not qualify for private financing or that the private financing costs make borrowing too expensive, which may cause students to abandon or delay their education. Any or all of these factors could reduce our enrollment, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and stock price. If we were to erroneously determine that a program of study is not required to measure student progress in clock hours for Title IV funding purposes, we would likely be liable for repayment of a portion of the Title IV Program funds provided to students in that program of study based on the difference between the amount of funds those students received and the amount they were eligible to receive.

Government and regulatory agencies and third parties have brought, and may bring additional, investigations, claims or actions against us based on alleged violations of the extensive regulatory requirements applicable to us, which could require us to pay monetary damages, receive other sanctions and expend significant resources to defend those claims or actions. We are subject to investigations and claims of non-compliance with regulatory standards and other actions brought by regulatory agencies, students, shareholders and other parties. Some of the more significant pending investigations, claims and actions are described in Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements. If the results of any investigations, claims and/or

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actions are unfavorable to us, we may be required to pay money damages or be subject to fines, penalties, injunctions, operational limitations, loss of eligibility to participate in federal or state financial aid programs, debarments, additional oversight and reporting, or other civil and criminal sanctions. Those sanctions could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, we have incurred, and expect to continue to incur, significant legal and other expenses in connection with investigations, claims and actions, which could have a material adverse effect on our financial condition, results of operations and cash flows. Investigations, claims and actions have caused and will continue to cause a substantial diversion of our management's attention and resources from our ongoing business operations, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Adverse publicity regarding any investigations, claims and/or actions could also negatively affect our business and the market price of our common stock. Further, the fact that investigations, claims and actions are pending against us has resulted in, and could in the future result in, increased scrutiny, the withholding of authorizations and/or the imposition of other sanctions by SAs, the ACs and other regulatory agencies governing us. See Business Highly Regulated Industry.

See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, and the discussions under the sub-headings Government Investigations and Litigation, for information regarding certain lawsuits and investigations affecting us.

Investigations, claims and actions against companies in our industry could adversely affect our business and stock price. The operations of a number of other companies in the postsecondary education industry have been subject to intense regulatory scrutiny. In some cases, allegations of wrongdoing have resulted in reviews, investigations or lawsuits by the U.S. Department of Justice, SEC, ED, CFPB, Government Accountability Office, Department of Veterans Affairs, Federal Trade Commission, Department of Defense, state education and professional licensing authorities, states' attorney general offices or other state agencies. These investigations and actions have alleged, among other things, deceptive trade practices and noncompliance with applicable laws and regulations. These allegations have attracted adverse media coverage that may negatively affect public perceptions of proprietary education institutions, including the ITT Technical Institutes and Daniel Webster College. Adverse media coverage regarding other companies in the proprietary education sector or regarding us directly could damage our reputation, could result in lower enrollments, revenue and profit, and could have a negative impact on our stock price. These allegations, reviews, investigations and enforcement actions and the accompanying adverse publicity could also result in increased scrutiny of, and have a negative impact on, us and our industry.

Our campuses' failure to comply with the requirements for receiving veterans' educational benefits or Department of Defense tuition assistance program funds could result in their loss of eligibility to receive such benefits and funds, which could materially and adversely affect our business. All of our campuses are approved to receive veterans' educational program benefits under the Montgomery GI Bill or the Post-9/11 Veterans Educational Assistance Act of 2008, as amended (collectively the GI Bill Programs). Although recent actions by the state approving agencies in California and New York were resolved favorably to us in 2015, we believe that state approving agencies in other states may take similar actions to suspend the approval of our courses offered by the campuses in those states for receipt of veterans' educational program benefits under the GI Bill Programs and require the submission of additional information and reports. Any of these actions by any state approving agency could materially and adversely affect our enrollments, results of operations and financial condition. If a material amount of the veterans' educational benefits funding that our students have historically received that is included in our non-Title IV revenue for purposes of the 90/10 Rule is no longer available, the percentage of our revenue from Title IV sources could materially increase, which could make it more difficult for us to satisfy the 90/10 Rule.

If the ED determines that borrowers of federal student loans who attended our institutions have a defense to repayment of their federal student loans based on a state law claim against any of our institutions, our institutions

repayment liability to the ED could have a material adverse effect on our financial condition, results of operations and cash flows. In addition to other authority, the ED's current regulations provide borrowers of loans under the FDL program a defense against an attempt to collect their FDL program loans based on any act or omission of the school attended by the student that would give rise to a cause of action under applicable state law. In the event the borrower asserts this defense, and the borrower's defense against repayment is successful, the ED will discharge all or part of the student's obligation to repay the loan, and may proceed to require the student's school to repay the amount of the loan to which the defense applies. The theory behind this regulation is that students who were victims of fraud should not be required to repay their FDL program loans and that the responsible institution should be accountable for loans forgiven by the ED based on the ED's determination that there is a valid defense to repayment.

On June 8, 2015, the ED issued a fact sheet, announcing steps it would be taking to support efforts by borrowers to secure discharge of their FDL program loans under the borrower defense regulations. Among those steps, the ED indicated that it would be appointing a Special Master to oversee borrower defense issues and to create a streamlined process for discharge applications, and that it would be revisiting the borrower defense regulations in the future for the purpose of creating a better system for debt relief. In announcing these actions, the ED also stated that its authority under the law extends to all institutions.

On October 20, 2015, the ED published a notice in the Federal Register requesting nominations for negotiators to serve on a negotiated rulemaking committee that will address for loans made under the FDL program: (1) the procedures to be used for a borrower to establish a defense to repayment; (2) the criteria that the ED will use to identify acts or omissions of an institution that

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constitute defenses to repayment of FDL program loans, including the creation of a federal standard; (3) the standards and procedures that the ED will use to determine the liability of the institution for amounts based on borrower defenses; (4) the effect of borrower defenses on institutional capability assessments; and (5) other loan discharges. In addition, the committee may also consider if and how these issues will affect the FFEL program.

The negotiated rulemaking committee began its deliberations in January 2016 and will conclude its three scheduled meetings in March 2016, following which the ED is expected to issue a proposed regulation for public comment. During the negotiated rulemaking, the ED has supported permitting borrowers to seek discharge of their FDL program loans based on acts or omission of their school that violate a new federal standard or standards, thereby obviating the need for the ED to determine whether there is a cause of action against the school under the applicable state law. The ED has indicated that should a new federal standard or standards be created, it would only be applicable where the contested loan was first disbursed on or after July 1, 2017. In accordance with the ED's rulemaking calendar, any final rule published by November 1, 2016, would be effective July 1, 2017.

If the ED determines that borrowers of FDL program loans who attended our institutions have a defense to repayment of their FDL program loans based on a certain act or omission of any of our institutions, the repayment liability to the ED could have a material adverse effect on our financial condition, results of operations and cash flows.

Changes in the amount or availability of veterans educational benefits or Department of Defense tuition assistance programs could materially and adversely affect our business. Certain members of Congress and the Obama Administration have increased their focus on Department of Defense tuition assistance and the Department of Veterans Affairs veterans educational benefits that are used for programs of study offered at proprietary education institutions, particularly distance education programs of study. EO 13607 requires an institution to agree to comply with the principles of excellence described in the EO in order for the institution to participate in the Department of Defense tuition assistance and Department of Veterans Affairs veterans education benefits programs, including the Post-9/11 GI Bill and the Tuition Assistance Program for active duty service members. Among other things, the principles of excellence include a requirement that institutions implement an institutional refund policy for veterans and service members that is aligned with the return of unearned student aid rules applicable to Title IV Programs when students withdraw prior to completing their programs. In addition, federal legislation has been introduced that would revise the 90/10 Rule to count Department of Defense tuition assistance and Department of Veterans Affairs veterans educational benefits toward the 90% limit. To the extent that any laws, regulations or other requirements are adopted that limit or condition the amount of educational benefits that veterans and active duty service members can use toward their costs of education at proprietary education institutions or in distance education programs, or that limit or condition the participation of proprietary education institutions or distance education programs in veteran or military tuition assistance programs or in Title IV Programs with respect to veteran or military tuition assistance programs, our enrollments, results of operations and financial condition could be materially and adversely affected.

The failure of DWC to meet the accreditation requirements of NEASC could result in its loss of eligibility to participate in Title IV Programs and possibly its ability to operate. DWC was subject to a notice of concern from its accrediting commission, the Commission on Institutions of Higher Education of the New England Association of Schools and Colleges (NEASC) with respect to DWC's financial condition from June 2009, when we acquired DWC, until April 2011. NEASC reinstated the notice of concern with respect to DWC's financial condition in March 2013. During 2013 and the first quarter of 2014, NEASC evaluated DWC in connection with its financial condition, but NEASC did not remove the notice of concern. In November 2014, NEASC conducted a focused evaluation visit at DWC to assess, in part, DWC's progress in addressing the issues that led NEASC to reinstate the notice of concern in 2013. DWC responded to the visiting team's report in February 2015, and subsequently responded to questions related to the visiting team's report and our pending regulatory and financial matters during NEASC's April 2015 meeting.

On June 24, 2015, NEASC informed DWC that it had reason to believe that DWC may not meet three NEASC standards. As a result, DWC was given the opportunity at NEASC's September 2015 meeting to show cause why DWC's accreditation should not be withdrawn. DWC was required to submit a show-cause report by September 4, 2015, evidencing compliance with the three NEASC accreditation standards cited: Standard Two (Planning and Evaluation), Standard Three (Organization and Governance), and Standard Nine (Financial Resources). NEASC requested specific materials be included with the show-cause report, including an update on DWC's planning efforts and progress in developing a strategic plan and an enrollment management plan, an update on Summer 2015 and Fall 2015 enrollment, evidence that we will provide sufficient continued financial support to DWC, an update on our financial and regulatory challenges, and an update on the appointment of a new CEO for DWC. DWC provided a responsive show-cause report and attended the September 2015 meeting.

On October 13, 2015, NEASC sent a letter to DWC, notifying DWC that, among other things, a continued formal notice of concern would be issued to DWC that it is in danger of not meeting NEASC's accreditation standard on Financial Resources and that a determination about DWC's compliance with NEASC's accreditation standards on Organization and Governance and Planning and Evaluation would be deferred pending receipt of additional information from DWC by January 6, 2016. The letter also indicated that a determination would be made at or following NEASC's March 2016 meeting about DWC's compliance with the standards on Organization and Governance and Planning and Evaluation and additional monitoring, including the status of DWC's Fall 2016 comprehensive evaluation and reports and visits related to the continued formal notice of concern. If these matters are not resolved to NEASC's satisfaction and DWC ultimately were to lose its accreditation, it would lose its eligibility to participate in Title IV Programs and possibly its ability to operate. If we could not arrange for alternative financial resources for the students attending DWC, we could be forced to close DWC, which could have a negative impact on the realizable value of DWC's assets and could result in a material impairment charge.

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If the graduates of some of our programs are unable to obtain licensure in their chosen professional fields of study, the enrollment in and the revenue derived from those programs could decrease and claims could be made against us that could be costly to defend. Graduates of certain of our programs of study offered through our Breckinridge School of Nursing and Health Sciences seek professional licensure in their chosen field following graduation. Their success in obtaining licensure depends on several factors, including:

the merits of the individual student;

whether the campus and the program were authorized by the appropriate SAs and/or approved by an accrediting commission and/or professional association; and

whether we complied with the requirements of those SAs, the accrediting commission or the professional association.

Certain SAs refuse to license students who graduate from programs that do not meet specific types of programmatic accreditation, residency or other state requirements. In the event that one or more SAs refuses to recognize our graduates for professional licensure in the future based on factors relating to our campuses or their programs, student enrollment in those programs would be negatively impacted which could have an adverse effect on our results of operations. In addition, we could be exposed to claims that would force us to incur legal and other expenses that could have a material adverse effect on our results of operations.

Laws and regulations relating to marketing practices could limit our marketing activities or cause us to discontinue the marketing activities that we currently use or plan to use, and failure to comply with such laws and regulations could result in statutory damages or lawsuits against us. We rely on a variety of direct-to-consumer marketing techniques, including telemarketing, email marketing and postal mailings, and we are subject to various laws and regulations which govern marketing and advertising practices. For example, the Telephone Consumer Protection Act of 1991, the Telemarketing Sales Rule, the CAN-SPAM Act of 2003 and various other federal and state laws and regulations impose requirements on the manner and extent to which we can market our programs to prospective students. The Telephone Consumer Protection Act requires, among other things, that we receive prior express written consent from consumers in order to place telemarketing calls to wireless phones using certain technology. Efforts to comply with these regulations may negatively affect our ability to contact prospective students and, therefore, our revenue and profitability. Newly-adopted or amended laws and regulations relating to telemarketing, and increased enforcement of such laws and regulations by governmental agencies or by private litigants, could adversely affect our business, operating results and financial condition. Our failure to comply with laws and regulations applicable to our marketing activities could also result in statutory damages and class action lawsuits or other lawsuits against us.

Risks Related to Our Business

Our guarantee obligations under the private education loan programs have had, and could continue to have, a material adverse effect on us, our consolidated financial statements and our compliance with covenants and metrics to which we are subject. We have entered into risk sharing and guarantee agreements with entities related to private education loans provided to our students to help pay the students' cost of education that student financial aid from federal, state and other sources does not cover. Our obligations under the PEAKS Guarantee will remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. Our obligations under the CUSO RSA will remain in effect, until all private education loans made under the CUSO Program are paid in full. See

Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for information regarding the guarantee payments, the payments on behalf of borrowers and the payments that we made related to the RSAs in 2015.

The repayment performance of the private education loans under the RSAs has been significantly worse, and the charge-off rate on those loans has been significantly higher, than we originally projected when we entered into the RSAs and our subsequent projections. Further, under the PEAKS Guarantee, due to the PEAKS Consolidation and other factors, we were not in compliance with certain financial metrics under the PEAKS Program, which resulted in an increase in the required minimum Asset/Liability Ratio and a requirement that we make higher payments under the PEAKS Guarantee. As a result of the higher charge-off rates of the private education loans made under both the CUSO Program and PEAKS Program and the increased Asset/Liability Ratio, we have made payments related to the RSAs that have been significantly higher than we initially anticipated, and we currently estimate that we will be required to make payments in material amounts under the RSAs in 2016 and future years. See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for the amount of payments that we currently estimate we will be required to make through the remaining terms of the RSAs.

As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, certain quarterly reports that we were required to deliver to the indenture trustee of the PEAKS Trust under the PEAKS Guarantee were inaccurate. We delivered corrected quarterly reports to the indenture trustee on October 9, 2014. If we had delivered accurate quarterly reports, or with respect to periods in 2014 through June 30, 2014, delivered quarterly reports, to the indenture trustee of the PEAKS Trust, we believe the indenture trustee would have made payment demands beginning in April 2013, requiring us to make additional payments under the PEAKS Guarantee totaling approximately \$60.3 million in the aggregate, in order to maintain an Asset/Liability Ratio of 1.40/1.00.

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On October 9, 2014, we made a guarantee payment of \$50.0 million, which payment, along with other payments that we made to the PEAKS Trust in prior months, included amounts that would have become due between April 2013 and September 2014, had we delivered accurate quarterly reports. The delivery of inaccurate quarterly reports constituted a breach of the PEAKS Guarantee and an event of default under the PEAKS Indenture. In the event of a default under the PEAKS Indenture, the payment of the entire amount of the PEAKS Senior Debt could be accelerated, which would trigger our obligation to pay the full amount of the PEAKS Senior Debt pursuant to our obligations under the PEAKS Guarantee, additional remedies could be sought against us and there could be a cross-default under the Financing Agreement, any of which would have a material adverse effect on our results of operations, financial condition and cash flows. We believe that the delivery of the corrected quarterly reports and the payments we made under the PEAKS Guarantee through October 9, 2014 satisfied our obligations under the PEAKS Guarantee with respect to these matters and cured the breach of the PEAKS Guarantee and the event of default under the PEAKS Indenture.

As a consequence of the Restatements, the quarterly and annual reports for the affected periods that we were required to deliver to the indenture trustee of the PEAKS Trust under the PEAKS Guarantee were inaccurate. We delivered corrected reports to the indenture trustee on March 14, 2016, and we believe that if any breach of the PEAKS Guarantee or any event of default under the PEAKS Indenture had occurred as a result of the Restatements, that our delivery of the corrected reports has cured any such breach or event of default. We cannot predict, however, whether the holders of the PEAKS Senior Debt will assert other breaches of the PEAKS Guarantee by us or assert that any breach of the PEAKS Guarantee or event of default under the PEAKS Indenture was not properly cured.

As a consequence of the Restatements, the quarterly and annual reports for the affected periods that we were required to deliver to the CUSO were inaccurate. We delivered corrected reports to the CUSO on March 14, 2016, and we believe that if any breach of any of our obligations under our agreements with the CUSO or any event of default had occurred as a result of the Restatements, that our delivery of the corrected reports has cured any such breach or event of default. We cannot predict, however, whether the CUSO will assert other breaches of our agreements with the CUSO or assert that any breach or event of default was not properly cured.

We have offset approximately \$8.5 million against amounts owed to us by the CUSO under a revolving note owed to us by the CUSO (the Revolving Note), instead of making additional payments under the CUSO RSA in that amount. We understand the CUSO's position to be that the offset was improper and, as a result, we are in default under the CUSO RSA. In the event of a default by us under the CUSO RSA related to the offset, we may be required to pay to the CUSO approximately \$10.2 million, net of approximately \$1.0 million of recoveries from charged-off loans that are owed, but have not been paid, to us. If the CUSO instead were to withdraw cash collateral in that amount from the restricted bank account maintained to hold collateral to secure our obligations under the CUSO RSA, we would be required to deposit that amount of cash in the account to maintain the required level of collateral under the CUSO RSA.

In addition, the litigation brought by the CFPB against us, including the allegations and ultimate outcome, could result in disputes regarding obligations and liabilities in connection with our private loan program guarantees.

Even if the charge-off rates of the private education loans made under the CUSO Program and PEAKS Program remain at levels similar to the charge-off rates that we are currently utilizing in our estimates of future payment amounts under the RSAs, those payment amounts could have a material adverse effect on our liquidity, cash flows and financial position, and could cause us to violate the requirements of the ED, SAs and the ACs and/or our compliance with the covenants under the Financing Agreement.

Our estimates of the future payment amounts under the CUSO RSA and the timing of those payments, assume, among other factors, that we do not make any Discharge Payments (as defined below) in 2016 or future years, based on the uncertainty related to the amount of future operating cash flows that will be available to us to make Discharge Payments. If we do make Discharge Payments in any future years, the effect of those Discharge Payments will be to reduce the total amount of our projected future payments under the CUSO RSA.

Our estimates of the future charge-off rates of the private education loans made under the CUSO Program and PEAKS Program and of other factors that we utilize in our projections are based on numerous assumptions which may not prove to be correct and involve a number of risks and uncertainties. We would be required to pay additional material amounts under the RSAs and we could be required to make payments under the RSAs earlier than currently projected in the event that:

the charge-off rates on the private education loans are higher than we are currently estimating;

other factors utilized in our projections are worse than currently estimated; and/or

other factors negatively impact our compliance with the financial metrics to which we are subject under the RSAs.

Any of these events could have a material adverse effect on us, including, among others, on our:

results of operations, financial condition and cash flows;

liquidity and ability to pay our obligations as they become due;

ability to comply with the requirements of the ED, SAs and ACs to which we are subject, resulting in significant negative consequences;

ability to comply with our covenants under the Financing Agreement, resulting in a default thereunder, which could have a material adverse effect on our results of operations, financial condition, cash flows, liquidity and ability to comply with our other obligations; and

ability to make required payments under the RSAs, resulting in a default thereunder, which, in the case of a default under the PEAKS Guarantee, could result in an acceleration of the entire amount of the PEAKS Senior Debt and our obligations to pay the full amount of the PEAKS Senior Debt pursuant to the terms of the PEAKS Guarantee, additional remedies against us and there could be a cross-default under the Financing Agreement, any of which would have a material adverse effect on our results of operations, financial condition and cash flows.

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Our management has identified material weaknesses in our internal control over financial reporting, which could, if not remediated, result in material misstatements in our future financial statements and may adversely affect our business and stock price. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (ICFR), as defined in Rule 13a-15(f) under the Exchange Act. As disclosed in Part II, Item 9A, Controls and Procedures of this Annual Report on Form 10-K, as of December 31, 2015, our management identified a material weakness in our ICFR related to a deficiency in the design and operation of a review control over the financial close and reporting process specific to the PEAKS Senior Debt balances reported in the financial statements, including:

appropriate reconciliation of the reported amounts and related amortization of the discount recorded against the PEAKS Senior Debt balance; and

adequacy of the depth, sufficiency and number of resources with the technical expertise available in our accounting and finance group to appropriately identify, research, analyze and conclude upon the accounting treatment.

A material weakness is defined as a deficiency, or combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weaknesses discussed above, our management concluded that our ICFR was not effective as of December 31, 2015. This is the third consecutive year that our management has concluded that our ICFR was not effective. As of December 31, 2013, our management concluded that our ICFR was not effective as a result of four material weaknesses, three of which were remediated as of December 31, 2014, but one of which remained unremediated as of December 31, 2014. This remaining material weakness, which related to data obtained from third parties related to private education loans, was remediated as of December 31, 2015. As of December 31, 2014, our management concluded that our ICFR was not effective as a result of three material weaknesses, two of which were remediated as of December 31, 2015. The unremediated material weakness was the one noted above. Further, we cannot assure you that additional material weaknesses in our ICFR will not be identified in the future.

Although we are implementing remedial measures designed to address the identified material weakness, if our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our ICFR are discovered or occur in the future, our consolidated financial statements may contain material misstatements. These misstatements could result in additional restatements of our consolidated financial statements, cause us to fail to meet our reporting obligations, lead to a default under our Financing Agreement, reduce our ability to obtain financing, increase the cost of any financing that we obtain or cause investors to lose confidence in our reported financial information, which could lead to a decline in our stock price. The likelihood of any or all of those risks may be increased as a result of the unremediated material weakness and/or the fact that we have had ineffective ICFR in three consecutive years.

Although we are working to remedy the ineffectiveness of our ICFR, there can be no assurance as to when the remediation plan will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented and considered complete, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. For more information relating to our ICFR (and disclosure controls and procedures) and the remediation plan undertaken by us,

see Part II, Item 9A, Controls and Procedures.

Restrictive covenants in the Financing Agreement restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility, and any default by us under the Financing Agreement could have a material adverse effect on our liquidity and ability to comply with our obligations. The Financing Agreement contains a number of covenants that limit our ability to take certain actions. In particular, the Financing Agreement limits the ability of us and certain of our subsidiaries (the Guarantors and together with us, the Loan Parties) to, among other things:

incur additional indebtedness;

incur or create liens;

make investments;

dispose of assets;

pay dividends; and

make prepayments on existing indebtedness.

The Financing Agreement also requires us to maintain compliance with a total leverage ratio and a fixed charge coverage ratio, as well as with certain educational regulatory measurements. In determining our compliance with the leverage ratio covenant, we are required to include the PEAKS Senior Debt and the CUSO Secured Borrowing Obligation (defined below) in the amount of our indebtedness, and therefore the amount of such liabilities could negatively impact our ability to comply with the leverage ratio covenant in the Financing Agreement. In addition, we are required to limit our annual payments with respect to the CUSO Program

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and the PEAKS Program. Further, pursuant to the Financing Agreement, we must provide the lenders with our quarterly financial statements within 45 days after the end of each fiscal quarter and our annual, audited financial statements within 90 days after the end of each fiscal year. If we are not able to deliver our financial statements for future periods by the applicable due dates, we would have to seek a waiver or an additional amendment to the Financing Agreement, which we may not be able to obtain on terms acceptable to us or at all. If we cannot obtain a waiver or amendment, the failure to timely deliver our financial statements would be an event of default under the Financing Agreement.

In connection with the Restatements, we obtained a waiver under the Financing Agreement, pursuant to which the lenders under the Financing Agreement waive any default or event of default that may have occurred and is continuing, or may occur, under the Financing Agreement or related loan documents as a result of various matters related to, or in connection with, the Restatements. Although the financial impact of the Restatements did not affect our compliance with any of the financial covenants in the Financing Agreement, we cannot assure you that actions taken by the ED affecting us or other factors relating to recent or future events affecting us, will not violate the covenants, or constitute a default by us, under the Financing Agreement. We may not be able to obtain additional amendments to, or waivers of, those covenants or events of default.

Any or all of the covenants under the Financing Agreement could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The restrictions could limit our ability to plan for, or react to, changes in market conditions or to finance future operations or capital needs. Further, our ability to comply with the covenants in the Financing Agreement may be affected by events beyond our control, including without limitation worsening economic or business conditions, unfavorable regulatory or judicial determinations, unfavorable legislation, the impact of the Consolidations or other events, and we cannot assure you that we will be able to comply with the covenants.

Our ability to make required payments on our indebtedness under the Financing Agreement is dependent on our ability to generate cash flows in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate cash flows in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Additionally, there is an excess cash flow mandatory prepayment provision in the Financing Agreement that will also limit our ability to utilize excess cash flows for other purposes in our business or to respond to market opportunities.

We may be required to make payments under the PEAKS Program and/or the CUSO RSA in 2016 or future years that exceed our current estimates and the guarantee payment limitation amount contained in the Financing Agreement. In such event, we would have to seek a waiver or an additional amendment to the Financing Agreement, which we may not be able to obtain on terms acceptable to us or at all. If we cannot obtain a waiver or amendment, the payment of amounts under the PEAKS Guarantee in excess of the stated limitation would be an event of default under the Financing Agreement.

The Financing Agreement provides for a number of potential events of default, including violations of the covenants or other provisions in the Financing Agreement or related loan documents, a failure to pay or a default under the PEAKS Program or the CUSO RSA, certain delays in our receipt of Title IV Program funds, and the occurrence of certain regulatory events. In the case of an event of default, the lenders could declare the senior secured term loans under the Financing Agreement (the Term Loans) then outstanding to be immediately due and payable in full. We may not be able to repay outstanding Term Loans, in which case the lenders would be entitled to recourse against the collateral security that we and the other Loan Parties have provided, to obtain payment of amounts we owe. The collateral security consists of substantially all of the Loan Parties' assets, including a pledge of the equity of the

Guarantors and our other subsidiaries, and a mortgage on the Loan Parties' owned real estate. In addition, even if we were able to repay the outstanding borrowings under the Financing Agreement, the use of funds to make that repayment would have a material adverse effect on our cash position and would significantly reduce the amount of funds available to us to satisfy our obligations under the RSAs, which could result in a default by us under those arrangements. Any of these events could have a material adverse effect on our business, ability to meet our obligations, ability to comply with regulatory requirements, financial condition and cash flows.

A default by us under the Financing Agreement could also lead to a determination by:

the ED to impose additional sanctions;

the ACs that our institutions are not financially stable; and/or

one or more of the SAs that our institutions do not satisfy the SAs' financial requirements.

If the ED, ACs and/or SAs determines that our institutions do not satisfy the applicable financial requirements for that reason, and given the sanctions that have already been imposed on our institutions for other reasons, these agencies could:

impose monetary fines or penalties on our campuses;

terminate or limit our campuses' operations or ability to award credentials;

restrict or revoke our campuses' accreditation;

limit, terminate or suspend our campuses' eligibility to participate in Title IV Programs or state financial aid programs;

require our campuses to repay funds received under Title IV Programs or state financial aid programs;

require us to post new letters of credit or increase the amounts of or extend the duration of amounts held in escrow;

increase the level of heightened cash monitoring to which our institutions are already subject by the ED;

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transfer our institutions from the ED's heightened cash monitoring system of receiving Title IV Program funds to its reimbursement system, which would significantly delay our institutions' receipt of Title IV Program funds;

place a maximum limit on the amount of Title IV funding that our institutions could receive or a maximum limit on the number of students to whom our institutions could award Title IV program funds;

deny applications for our institutions to obtain Title IV eligibility for new educational programs or new campuses or educational sites; and

subject us or our campuses to other penalties.

Each of these sanctions could materially adversely affect our financial condition, results of operations and cash flows, and impose significant operating restrictions on us. If any of our campuses lost its state authorization, the campus would be unable to offer postsecondary education and we would be forced to close the campus. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

The Restatements may lead to additional risks and uncertainties, including shareholder litigation, loss of investor confidence and negative impacts on our stock price. In addition to the Restatements, we previously restated our unaudited condensed consolidated financial statements as of and for each of the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013. Restatements may increase the risk of additional shareholder litigation against us. In addition, the fact that we have restated our financial statements in multiple periods may lead to a loss of investor confidence and have negative impacts on the trading price of our common stock.

Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital. We did not file our Annual Report on Form 10-K for the year ended December 31, 2013, our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014, and September 30, 2014, our Annual Report on Form 10-K for the year ended December 31, 2014 or our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 within the timeframes required by the SEC. As a result of our late filings, we may be limited in our ability to access the public markets to raise debt or equity capital, which could prevent us from pursuing transactions or implementing business strategies that we believe would be beneficial to our business. We are ineligible to use shorter and less costly filings, such as Form S-3, to register our securities for sale for a period of 12 months following the month in which we regained compliance with our SEC reporting obligations, which was June 12, 2015.

If we fail to effectively identify, establish and operate new campuses, our opportunity to grow will be limited. Part of our business strategy includes operating new campuses at locations throughout the United States. Establishing new campuses poses challenges and requires us to make investments in management and capital expenditures, incur marketing and advertising expenses and devote other resources that are different, and in some cases greater, than those required with respect to the operation of existing campuses. To operate a new campus, we would be required to obtain the appropriate authorizations from the ED and applicable SAs and ACs, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible to participate in Title IV Programs, a new campus must be certified by the ED, before it starts disbursing Title IV Program funds to its students. See *We cannot operate new campuses or offer new programs, if they are not timely authorized by our regulators, and we may*

have to repay Title IV Program funds disbursed to students enrolled at any of those locations or in any of those programs, if we do not obtain prior authorization. We cannot be sure that we will be able to identify suitable growth opportunities, obtain the required authorizations, or successfully integrate or profitably operate any new campuses. Any failure by us to effectively identify, establish and manage the operations of newly established campuses could limit our growth opportunities, make any newly established campuses more costly to operate than we had planned and have a material adverse effect on our growth plans and results of operations.

Our success depends, in part, on our ability to effectively identify, develop, obtain approval to offer and teach new programs at different levels in a cost-effective and timely manner. Part of our business strategy also includes increasing the number, levels, lengths and disciplines of programs offered at our campuses. Developing and offering new programs pose challenges and require us to make investments in research and development, management and capital expenditures, to incur marketing and advertising expenses and to devote other resources that are in addition to, and in some cases greater than, those associated with our current program offerings. In order to offer new programs at different levels at our campuses, we may be required to obtain the appropriate authorizations from the ED, SAs, ACs and, in certain circumstances, specialized programmatic accrediting commissions, which may be conditioned or delayed in a manner that could affect the programs offered at our campuses. We cannot be sure that we will be able to identify new programs, that we will be able to obtain the requisite authorizations to offer new programs at different levels at our campuses or that students will enroll in any new programs that we offer at our campuses. Any failure by us to effectively identify, develop, obtain authorization to offer and teach new programs at our campuses could have a material adverse effect on our growth plans and results of operations. See Business Business Strategy *Enhance Results at Each Institution, If any of our programs of study fail to qualify as programs that lead to gainful employment in a recognized occupation under the ED's regulations, students attending those programs of study will be unable to use Title IV Program funds to help pay their education costs*, *We cannot operate new campuses or offer new programs, if they are not timely authorized by our regulators, and we may have to repay Title IV Program funds disbursed to students enrolled at any of those locations or in any of those programs, if we do not obtain prior authorization* and *Failure by any of our campuses or program offerings to satisfy the ACICS Council standards with respect to Student Retention Rates, Graduate Placement Rates or Licensure Examination Pass Rates could cause us to close those campuses and reduce the offerings of those programs.*

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Our success depends, in part, on our ability to keep pace with changing market needs and technology. Increasingly, prospective employers of our graduates demand that their entry-level employees possess appropriate technical skills and also appropriate soft skills, such as communication, critical thinking and teamwork skills. The skills that employees need may evolve rapidly in a changing economic and technological environment. Accordingly, it is important for our programs to evolve in response to those economic and technological changes. Any expansion of our existing programs and the development of new programs may not be accepted by prospective students or the employers of our graduates. Even if we are able to develop acceptable new programs, we may not be able to begin offering those new programs as quickly as required by the employers we serve 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, technological changes or other factors, our ability to attract and retain students could be impaired and the rates at which our graduates obtain jobs involving their fields of study could suffer.

Our financial performance depends, in part, on our ability to continue to develop awareness and acceptance of our programs among working adults and, to a lesser extent, recent high school graduates. The awareness of our programs among working adults and, to a lesser extent, recent high school graduates is important to the success of our campuses. If we were unable to successfully market or advertise our programs, our ability to attract and enroll prospective students in our programs would be adversely affected and, consequently, our ability to increase revenue or maintain profitability would be impaired. The following are some of the factors that could prevent us from successfully marketing or advertising our programs:

adverse publicity regarding us, our competitors or proprietary education generally;

student dissatisfaction with our programs and services;

employer dissatisfaction with our programs and services;

high costs of certain types of advertising media; and

our failure to maintain or expand our brands or other factors related to our marketing or advertising practices.

Increases in institutional scholarships and awards and internal student financing could have a material adverse effect on our cash flows, revenue and student population. During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. By June 30, 2013, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. We believe that the Opportunity Scholarship has, and will continue to, reduce our students' need and use of private education loans, as well as decrease the internal student financing that we provide to our students. As an institutional scholarship, our revenue is reduced by the amount of the Opportunity Scholarship awarded. In addition, no cash payments are received and students will not be obligated to make payments to us of the amounts awarded under the Opportunity Scholarship. Therefore, the amounts receivable from students to us, as well as our revenue, decreased in 2015 and, we believe, may continue to decrease in 2016.

The increased amount of internal student financing that we previously provided to our students has exposed us to greater credit risk. The internal student financing that we provide to our students consists of non-interest bearing, unsecured credit extended to our students. Internal student financing typically provides for payment to us by our students by the end of the student's academic year or enrollment, whichever occurs first, compared to payments from private education loan programs, which we typically received at the beginning of a student's academic year. We plan to continue to offer the Opportunity Scholarship and other scholarships to eligible students which we believe will continue to reduce the amount of internal student financing that we provide to our students. The increased use of institutional scholarships and awards by our students and any additional internal student financing provided to our students could result in a continuation of the adverse factors that are described above, including a material adverse effect on our financial condition and cash flows.

We have a significant amount of cash held in escrow with the ED, which has a continuing material adverse effect on our cash flows and liquidity. In December 2015, we deposited \$79.7 million to be held in escrow by the ED in replacement of the ED Letter of Credit requirement. The holding of such funds in escrow has, and will continue to have, a material adverse effect on our liquidity, and significantly reduces the amount of cash that we have available for other purposes, including to satisfy our future payment obligations under the RSAs. The ED Escrowed Funds are not available for use by us, and could be used by the ED if for one or more of the following purposes:

to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;

to provide for the teach-out of students enrolled at the time of closure of our institutions; and

to pay any liabilities owing to the ED arising from acts or omissions by our institutions, on or before November 4, 2019, in violation of requirements set forth in the HEA, including the violation of any agreement entered into by our institutions with the ED regarding the administration of Title IV Programs.

The fact that a significant amount of our cash is held in escrow with the ED could also negatively affect our ability to satisfy the financial metrics of the SAs and ACs to which we are subject. We cannot assure you that we will not have to deposit additional amounts to be held as ED Escrowed Funds, which deposit could have a material adverse effect on our cash flows and liquidity.

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If we experience losses in excess of the amounts that we have accrued with respect to the significant amount of internal student financing that we have provided to our students, it could have a material adverse effect on our financial condition, results of operations and cash flows. We offer internal student financing to help students pay the portion of their cost of education that is not covered by financial aid or other funds. These balances are unsecured and not typically guaranteed. The introduction of the Opportunity Scholarship has reduced, and will continue to reduce, our students' need for internal student financing. Internal student financing adversely affects our cash flows and exposes us to greater credit risk. Although we have accrued for estimated losses related to unpaid student balances, losses in excess of the amount we have accrued for bad debts could have a material adverse effect on our financial condition and results of operations.

If we are unable to successfully conclude litigation against us, our business, financial condition and results of operations could be materially adversely affected. We are subject to various lawsuits, investigations and claims, covering a wide range of matters, including, but not limited to, alleged violations of federal and state laws, claims involving students or graduates and routine employment matters. We cannot predict the ultimate outcome of these matters and have incurred, and expect to incur, significant defense costs and other expenses in connection with these matters. Those costs and expenses have had, and could continue to have, a material adverse effect on our business, financial condition, results of operations and cash flows and the market price of our common stock. These matters have and will continue to cause substantial diversion of our management's attention and resources from our ongoing business operations, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may be required to pay substantial damages or settlement costs in excess of our insurance coverage related to these matters, or may be required to pay substantial fines or penalties, any of which could have a further material adverse effect on our business, financial condition, results of operations and cash flows. An adverse outcome in any of these matters could also materially and adversely affect our authorizations, licenses, accreditations and eligibility to participate in Title IV programs. See Legal Proceedings.

High interest rates and tightening of the credit markets could adversely affect our ability to attract and retain students and could increase our risk exposure. Since much of the financing our students receive is tied to floating interest rates, higher interest rates cause a corresponding increase in the cost to our existing and prospective students of financing their education, which could result in a reduction in the number of students attending our campuses and, consequently, in our revenue. Higher interest rates could also contribute to higher default rates with respect to our students' repayment of Title IV Program and private education loans. High default rates may, in turn, adversely impact our eligibility to participate in Title IV Programs, trigger our guarantee obligations with respect to private education loan programs and/or negatively affect the willingness of private lenders to make private education loan programs available to our students, which could result in a reduction in the number of students attending our campuses and could have a material adverse effect on our financial condition, results of operations and cash flows. As a result of those adverse effects on our students' ability to finance their cost of education, our receivables could increase and/or our student population could decrease, which could have a material adverse effect on our financial condition, results of operations and cash flows.

The ability of the CPD to provide education-related services depends, in large part, on obtaining authorizations from vendors and trade associations to use their content in the CPD's education-related services. Part of our business strategy includes developing and providing education-related services to students and other constituencies. Through the CPD, we are developing and providing education-related services, including training programs, curricula, assessments and consulting. The majority of the content of the education-related services provided by the CPD is authorized under agreements between the CPD and vendors or trade associations (the Content Agreements). We cannot be sure that we will be able to maintain or renew the existing Content Agreements or enter into new Content Agreements. Any failure by us to effectively identify or develop content for education-related services, or maintain, renew or obtain Content Agreements with respect to our education-related services, could have a material adverse

effect on our growth plans and results of operations.

Our inability to attract, hire or retain key personnel could harm our business. Our success to date has depended, and will continue to depend, largely on the skills, efforts and motivation of our executive officers. Our success also depends in large part on our ability to attract and retain highly qualified faculty, school administrators and corporate management. We face competition in the attraction and retention of personnel who possess the skill sets that we seek. In addition, key personnel may leave us and subsequently compete against us. Furthermore, we do not currently carry key man life insurance. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could impair our ability to successfully manage our business.

In order to support revenue growth, we need to hire, retain, develop and train employees who are responsible for student recruiting, financial aid, registration, teaching and career services. Our ability to develop a strong team of employees with these responsibilities may be affected by a number of factors, including:

our ability to timely and effectively train and motivate our employees in order for them to become productive;

restrictions imposed by regulatory bodies on the method of compensating employees, such as the Incentive Compensation Prohibition;

our ability to attract enough prospective students to our program offerings; and

our ability to effectively manage a multi-institutional and multi-location educational organization.

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If we are unable to hire, retain, develop and train employees who are responsible for student recruiting, financial aid, registration, teaching and career services, our operations would be adversely affected.

Recent and ongoing adverse matters affecting us and our industry, including, without limitation, investigations, claims and lawsuits, and the negative publicity associated with those matters, may make it significantly more difficult for us to attract, motivate and retain employees at all levels of our organization. In addition, volatility or lack of performance in our stock price may also affect our ability to attract and retain key employees. Our key executives may be more inclined to leave us, because the exercise prices of their stock options are significantly above the market price of our common stock or the perceived value of their restricted stock units continues to decline.

Competition could decrease our market share or force us to increase spending. The postsecondary education market in the United States is highly fragmented and competitive, with no single private or public institution enjoying a significant market share. Our campuses compete for students with degree- and non-degree-granting institutions, which include public and private nonprofit colleges and proprietary institutions, as well as with alternatives to higher education, such as military service or immediate employment. Certain public and private colleges offer programs similar to those offered by our campuses at a lower tuition cost due in part to government subsidies, foundation grants, tax deductible contributions or other financial resources not available to proprietary institutions. Other proprietary institutions offer programs that compete with those of our campuses. Certain of our competitors in both the public and private sectors have greater financial and other resources than we do. In addition, recent and ongoing adverse matters affecting us and our industry, including, without limitation, investigations, claims and lawsuits, have resulted in negative publicity related to us and our industry. All of these factors could affect the success of our marketing efforts and enable our competitors to recruit prospective students more effectively.

We may be required to increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our financial condition, results of operations and cash flows may be negatively affected. We cannot be sure that we will be able to compete successfully against current or future competitors or that competitive pressures faced by us will not adversely affect our business, financial condition, results of operations or cash flows.

We may be unable to successfully complete or integrate acquisitions. We may not be able to complete acquisitions on favorable terms or, even if we do, we may not be able to successfully integrate the acquired businesses into our business. Acquisition challenges include, among others:

regulatory approvals;

significant capital expenditures;

assumption of known and unknown liabilities;

our ability to control costs; and

our ability to integrate new personnel.

The successful integration of acquisitions may also require substantial attention from our senior management and the senior management of the acquired business, which could decrease the time that they devote to the day-to-day management of our business. If we do not successfully address risks and challenges associated with acquisitions, including integration, acquisitions could harm, rather than enhance, our operating performance.

In addition, if we consummate an acquisition, our capitalization and results of operations may change significantly. An acquisition could result in:

the incurrence of debt and contingent liabilities;

an increase in interest expense, amortization expenses, goodwill and other intangible assets;

charges relating to integration costs; and

an increase in the number of shares outstanding.

These results could have a material adverse effect on our results of operations or financial condition or result in dilution to current stockholders.

Terrorist attacks and other acts of violence or war could have an adverse effect on our operations. Terrorist attacks and other acts of violence or war could disrupt our operations. Attacks or armed conflicts that directly impact our physical facilities or ability to recruit and retain students and employees could adversely affect our ability to deliver our programs of study to our students and, thereby, impair our ability to achieve our financial and operational goals. Furthermore, violent acts and threats of future attacks could adversely affect the U.S. and world economies. Finally, future terrorist acts could cause the United States to enter into a wider armed conflict that could further impact our operations and result in prospective students, as well as our current students and employees, entering military service. These factors could cause significant declines in the number of students who attend our campuses and have a material adverse effect on our results of operations.

Natural disasters and other acts of God could have an adverse effect on our operations. Hurricanes, earthquakes, floods, tornados and other natural disasters and acts of God could disrupt our operations. Natural disasters and other acts of God that directly impact our physical facilities or ability to recruit and retain students and employees could adversely affect our ability to deliver our programs of study to our students and, thereby, impair our ability to achieve our financial and operational goals. Furthermore, natural disasters could adversely affect the economy and demographics of the affected region, which could cause significant declines in the number of students who attend our campuses in that region and have a material adverse effect on our results of operations.

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A breach of the physical security at any of our locations could harm our business. There have been a number of shooting and other incidents involving violence at school locations over the last several years. An incident involving violence resulting from a breach of the physical security or otherwise at any of our locations and/or harm to any of our students or employees could expose us to adverse publicity, as well as significant litigation and claims from third parties, which could have a material adverse effect on our reputation, business, prospects, results of operations, financial condition or cash flows.

The Early Career Academy is highly regulated, may require significant expenditures by us and may not be a successful business endeavor. To date, we have become the EMO for only three public charter high schools. As such, the Early Career Academy is in the initial stages, and we cannot assure you that it will be a successful endeavor for us in the foreseeable future or at all. The Early Career Academy business is subject to extensive regulation, and we believe that it may require significant expenditures by us. Some of the factors that could have an adverse effect on the business of the Early Career Academy include, among others:

a reduction in government funding for, or a loss of tax-exempt status or funding eligibility by, public charter high schools;

the poor performance or misconduct by the Early Career Academy or operators of other public charter high schools;

legal claims challenging various aspects of public charter high schools; and

non-compliance with applicable regulations.

In addition, offering education programs to minors through secondary school operations involves certain laws, regulations, liabilities and risks that we have not had to previously address or been subject to in connection with offering education programs to adults through our post-secondary operations. We may be subject, directly or indirectly, to legal claims associated with the actions of, or filed by, employees and students of the Early Career Academy. In the event of accidents or injuries or other harm to students, we may be at an increased risk of claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for their injuries and our insurance may not cover the expenses of litigation or settlement amounts. Any such claims could adversely affect our reputation and our ability to retain authorizations to operate the Early Career Academy. Even if unsuccessful, such a claim could also create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of management.

Anti-takeover provisions in our charter documents and under Delaware law, as well as required approvals by the ED, the ACs and most of the SAs, could make an acquisition of us more difficult. Certain provisions of Delaware law, our Restated Certificate of Incorporation and our By-Laws could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of us. Those provisions could:

limit the price that certain investors might be willing to pay in the future for shares of our common stock;

discourage or prevent certain types of transactions involving an actual or threatened change in control of us (including unsolicited takeover attempts), even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price;

make it more difficult for stockholders to take certain corporate actions; and

have the effect of delaying or preventing a change in control of us.

Certain of those provisions authorize us to:

issue blank check preferred stock;

divide our Board of Directors into three classes expiring in rotation;

require advance notice for stockholder proposals and nominations;

prohibit stockholders from calling a special meeting; and

prohibit stockholder action by written consent.

In addition, the ED, the ACs and most of the SAs have requirements pertaining to the change in ownership and/or control (collectively change in control) of institutions, but these requirements do not uniformly define what constitutes a change in control and are subject to varying interpretations as to whether a particular transaction constitutes a change in control. If we or any of our campuses experience a change in control under the standards of the ED, the ACs or the SAs, we or the affected campuses must seek the approval of the relevant regulatory agencies. Transactions or events that constitute a change in control for one or more of our regulatory agencies include:

the acquisition of a school from another entity;

significant acquisitions or dispositions of our common stock; and

significant changes to the composition of our, or any campus, Board of Directors.

Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in obtaining, a required approval of any change in control from the relevant regulatory agencies could impair our ability or the ability of the affected campuses to participate in Title IV Programs, or could require us to suspend our recruitment of students in one or more states until we receive the required approval. A material adverse effect on our financial condition, results of operations and cash flows would result if we had a change in control and a material number of our campuses:

failed to timely obtain the approvals of the SAs required prior to or following a change in control;

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failed to timely regain approval by the ACs for inclusion in their institution's grant of accreditation or have their inclusion in that accreditation temporarily continued or reinstated by the ACs;

were subjected by the ED to restrictions that severely limited for a substantial period of time the number of new additional locations and/or new programs of study that are eligible to participate in Title IV Programs.

The fact that a change in control would require approval of the relevant regulatory agencies, and the uncertainty and potential delay related to obtaining such approvals, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of us.

The personal information that we collect may be vulnerable to breach, theft or loss that could adversely affect our reputation and operations. Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. In the ordinary course of our business, we collect, use and retain large amounts of personal information regarding prospective students, students, their families and employees. Some of this personal information is held and managed by certain of our vendors. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information. We cannot assure you that a breach, loss or theft of personal information will not occur. A major breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could subject us to costly claims or litigation, have a material adverse effect on our reputation and results of operations and result in further regulation and oversight by federal and state authorities and increased costs of compliance. Potential new federal or state laws and regulations also may increase our costs of compliance or limit our ability to use personal information to recruit students.

Security breaches or system interruptions or delays involving our computer networks could disrupt our operations, damage our reputation, limit our ability to attract and retain students and require us to expend significant resources. The performance and reliability of our computer systems are critical to our information management, reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in traffic, could disrupt the provision of education to students attending our campuses. We cannot assure you that we will be able to expand the infrastructure of our computer systems on a timely basis sufficient to meet demand. Our computer systems and operations could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and telecommunications failures. Any interruption to our computer systems could have a material adverse effect on our operations and ability to attract and retain students. These factors could affect the number of students who attend our campuses and have a material adverse effect on our results of operations.

Our computer systems may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of those security breaches or to alleviate problems caused by those breaches. These factors could affect the number of students who attend our campuses and have a material adverse effect on our results of operations.

We rely on exclusive proprietary rights and intellectual property that 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 to protect our rights to distinctive marks associated with our services. We rely on agreements under which we obtain rights to use the ITT and related marks and course content developed by our faculty, our other employees and third party content experts. We cannot assure you that those measures will be adequate, that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights, or that third parties will not infringe upon or violate our proprietary rights. Despite our efforts to protect those rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our names, curricula and other content. Our management's attention may be diverted by those attempts and we may need to use funds in litigation to protect our proprietary rights against any infringement or violation.

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in those disputes. In certain instances, we may not have obtained sufficient rights in the content or mode of delivery of a course or a program of study. 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, such as certain patent rights, may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid infringing upon those intellectual property rights. Any such intellectual property claim could subject us to costly litigation, regardless of whether the claim has merit. Our insurance coverage may not cover potential claims of this type adequately or at all, and we may be required to alter the content or mode of delivery of our courses or programs of study, or pay significant monetary damages, any of which could have a material adverse effect on our results of operations.

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Risk Related to Our Common Stock

The trading price of our common stock may fluctuate and decline substantially in the future. The trading price of our common stock has fluctuated and declined, and may continue to fluctuate and decline, substantially as a result of a number of factors, some of which are not within our control. Those factors include, among others:

our ability to meet or exceed our own forecasts or expectations of analysts or investors;

quarterly variations in our operating results;

changes in federal and state laws and regulations and accreditation standards, or changes in the way that laws, regulations and accreditation standards are interpreted and applied;

the initiation, pendency or outcome of litigation, regulatory reviews and investigations, and any adverse publicity related thereto;

the effects of financial reporting matters, such as material weaknesses in internal control over financial reporting, restatements and the Consolidations;

actions by the New York Stock Exchange (NYSE), or uncertainty related to possible actions by the NYSE, related to the continued listing of our common stock;

negative media reports with respect to us and/or our industry;

changes in our own forecasts or earnings estimates by analysts;

price and volume fluctuations in the overall stock market, which have affected the market prices of many companies in the proprietary, postsecondary education industry in recent periods;

the amount and availability of financing and grant programs for our students;

the short interest in our stock at any point in time;

the loss of key personnel; and

general economic conditions.

Those factors could adversely affect the trading price of our common stock and could prevent an investor from selling shares of our common stock at or above the price at which those shares were purchased.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of December 31, 2015, we:

leased 112 facilities used by our campuses;

owned 42 facilities used by our campuses;

leased one facility that is intended to be used by a new campus in the future; and

leased six facilities that are not expected to be used as a campus or learning site, all of which have leases that expire by January 2017.

Thirteen of the owned facilities and three of the leased facilities are used by DWC. We also own our headquarters building in Carmel, Indiana, which represents approximately 43,000 square feet of office space. Our facilities are located in 39 states.

Our obligations under the Financing Agreement are secured by mortgages on 31 separate properties owned by us and DWC, including all of the improvements thereto and fixtures thereon. These properties consist of all of the real property owned by us and DWC. See Note 12 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the Financing Agreement.

We generally locate our campuses in suburban areas near major population centers. We generally house our campus facilities in modern, air conditioned buildings, which include classrooms, laboratories, student break areas and administrative offices. Our campuses typically have accessible parking facilities and are generally near a major highway. The facilities at our locations range in size from approximately 10,000 to 58,000 square feet. The initial lease terms of our leased facilities range from approximately one to 15 years. The average remaining lease term of our leased facilities is approximately three years. If desirable or necessary, a campus may be relocated to a new facility reasonably near the existing facility at the end of the lease term.

Item 3. Legal Proceedings.

We are subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, employee-related matters and taxes, among others. We cannot assure you of the ultimate outcome of any litigation or investigations involving us. Any litigation alleging violations of education or consumer protection laws and/or regulations, misrepresentation, fraud or deceptive practices may also subject our affected

campuses to additional regulatory scrutiny.

See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, and the discussions under the sub-headings Litigation and Government Investigations, for information regarding certain lawsuits and investigations affecting us.

Item 4. Mine Safety Disclosures.

Not Applicable.

Table of Contents**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 NYSE under the ESI trading symbol. The prices set forth below are the high and low sale prices of our common stock on the NYSE during the periods indicated.

Fiscal Quarter Ended	2015		2014	
	High	Low	High	Low
March 31	\$ 10.10	\$ 6.36	\$ 45.80	\$ 26.73
June 30	\$ 7.19	\$ 1.93	\$ 29.89	\$ 16.20
September 30	\$ 6.10	\$ 2.76	\$ 17.17	\$ 4.07
December 31	\$ 4.10	\$ 2.90	\$ 14.10	\$ 3.66

There were 80 holders of record of our common stock on March 11, 2016.

We did not pay a cash dividend in 2015 or 2014. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. The declaration and payment of dividends on our common stock are subject to the discretion of our Board of Directors and compliance with applicable law, as well as the limitations contained in our Financing Agreement. The Financing Agreement generally prohibits us from paying dividends; accordingly, we do not anticipate paying dividends while the Financing Agreement is outstanding. Any decision thereafter to pay dividends will depend on general business conditions, the effect of such payment on our financial condition and other factors our Board of Directors may in the future consider to be relevant.

We did not sell any of our securities during the three months ended December 31, 2015 that were not registered under the Securities Act.

In the three months ended December 31, 2015, we did not repurchase any shares of our common stock. Our Board of Directors has authorized us to repurchase shares of our common stock in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Exchange Act (the Repurchase Program). The shares that remained available for repurchase under the Repurchase Program were 7,771,025 as of December 31, 2015. Unless earlier terminated by our Board of Directors, the Repurchase Program will expire when we repurchase all shares authorized for repurchase thereunder.

The performance graph set forth below compares the cumulative total shareholder return on our common stock with the S&P 500 Index, a Peer Issuer Group Index and a former peer issuer index for the period from December 31, 2010 through December 31, 2015. The peer issuer group consists of the following companies selected on the basis of the similar nature of their business: American Public Education, Inc., Apollo Education Group, Inc., Bridgepoint Education, Inc., Capella Education Company, Career Education Corp., DeVry Education Group, Inc., Grand Canyon Education, Inc., K12 Inc., Lincoln Educational Services Corporation, Strayer Education, Inc. and Universal Technical Institute, Inc. (the Peer Issuer Group). We believe that, including us, the Peer Issuer Group represents a significant portion of the market value of publicly traded companies whose primary business is postsecondary education. The Peer Issuer Group differs from the former peer issuer group in that Corinthian Colleges, Inc. was included in the former peer issuer group, but was removed from the Peer Issuer Group due to its common stock being delisted in 2015.

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**(Based on \$100 invested on December 31, 2010 and assumes
the reinvestment of all dividends)**

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
ITT Educational Services, Inc.	100.00	89.32	27.18	52.72	15.09	5.86
Peer Issuer Group Index	100.00	99.04	50.10	72.30	72.41	38.82
Former Peer Issuer Group Index	100.00	100.63	48.70	71.91	74.40	39.34
S&P 500 Index	100.00	102.11	118.45	156.82	178.29	180.75

The preceding stock price performance graph and related information shall not be deemed soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

Table of Contents**Item 6. Selected Financial Data.**

The following selected financial data are qualified by reference to and should be read with our Consolidated Financial Statements and Notes to Consolidated Financial Statements and other financial data included elsewhere in this report. See also Management's Discussion and Analysis of Financial Condition and Results of Operations, for additional discussion of the selected financial data and the impact of the Consolidations. The amounts below as of and for the year ended December 31, 2014 consist of the restated amounts, which reflect the Restatements.

	Year Ended December 31,				
	2015	2014 (a)	2013 (a)	2012	2011
	(Dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$ 849,826	\$ 961,783	\$ 1,072,311	\$ 1,286,633	\$ 1,499,977
Cost of educational services	390,610	460,782	486,353	538,350	553,065
Student services and administrative expenses	343,676	389,116	397,541	400,856	414,156
Goodwill and asset impairment	5,203	2,454	0	15,166	0
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters (b)	26,093	32,008	6,923	873	0
Loss related to loan program guarantees (c)	0	2,019	90,964	101,025	23,500
Provision for private education loan losses	5,083	14,150	29,349	0	0
Total costs and expenses	770,665	900,529	1,011,130	1,056,270	990,721
Operating income	79,161	61,254	61,181	230,363	509,256
Gain (loss) on consolidation of variable interest entities	0	16,631	(73,248)	0	0
Interest income (expense), net	(39,761)	(37,743)	(25,169)	(2,375)	1,077
Income (loss) before provision for income taxes	39,400	40,142	(37,236)	227,988	510,333
Provision (benefit) for income taxes	16,102	16,822	(10,212)	89,018	201,247
Net income (loss)	\$ 23,298	\$ 23,320	\$ (27,024)	\$ 138,970	\$ 309,086
Earnings (loss) per share: (d)					
Basic	\$ 0.99	\$ 0.99	\$ (1.15)	\$ 5.82	\$ 11.27
Diluted	\$ 0.97	\$ 0.98	\$ (1.15)	\$ 5.79	\$ 11.18
Other Operating Data (e):					
Capital expenditures, net (f)	\$ 6,586	\$ 6,092	\$ 5,147	\$ 18,250	\$ 30,900
Number of students at end of period	44,922	53,646	57,542	61,059	73,255
Number of campuses at end of period	138	144	147	147	141
Number of learning sites at end of period	0	0	2	2	3

	As of December 31,				
	2015	2014 (a)	2013 (a)	2012	2011
	(Dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents and investments	\$ 130,897	\$ 135,937	\$ 215,771	\$ 243,465	\$ 379,609
Total current assets	\$ 243,098	\$ 291,414	\$ 434,616	\$ 386,580	\$ 456,790
Property and equipment, less accumulated depreciation	\$ 142,164	\$ 157,072	\$ 168,509	\$ 189,890	\$ 201,257
Total assets	\$ 664,014	\$ 752,838	\$ 806,851	\$ 675,204	\$ 729,320
Total current liabilities	\$ 330,107	\$ 322,733	\$ 473,777	\$ 327,023	\$ 345,243
Total long-term debt (g)	\$ 30,701	\$ 134,880	\$ 71,341	\$ 140,000	\$ 150,000
CUSO secured borrowing obligation, excluding current portion	\$ 91,728	\$ 100,194	\$ 0	\$ 0	\$ 0
Total liabilities	\$ 502,878	\$ 610,766	\$ 691,205	\$ 549,439	\$ 560,215
Shareholders equity	\$ 161,136	\$ 142,072	\$ 115,646	\$ 125,765	\$ 169,105

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- (a) Beginning on February 28, 2013, we consolidated the PEAKS Trust in our consolidated financial statements. Beginning on September 30, 2014, we consolidated the CUSO in our consolidated financial statements. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations.
- (b) Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters represent the expenses that we believe are not representative of those normally incurred in the ordinary course of business, including, with respect to accounting matters, accounting for and audit expenses specifically related to the PEAKS Consolidation and the restatement of our 2013 quarterly consolidated financial statements. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements for a further discussion of the Consolidations, and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the settlements, lawsuits and investigations.
- (c) Loss related to loan program guarantees represents the additional contingent liability accruals recorded for the RSAs and the 2007 RSA, which includes the accrual that we recorded in 2012 for the settlement related to the 2007 RSA.
- (d) Earnings (loss) per share for all periods have been calculated in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) 260, Earnings Per Share. Earnings (loss) per share data are based on historical net income and the weighted average number of shares of our common stock outstanding during each period. The number of shares used to calculate basic earnings per share differs from the number of shares used to calculate diluted earnings per share. The number of shares used to calculate basic earnings per share was the weighted average number of common shares outstanding. The number of shares used to calculate diluted earnings per share was the weighted average number of common shares outstanding, plus the average number of shares that could be issued under our stock-based compensation plans and less the number of shares assumed to be purchased with any proceeds received from the exercise of awards under those plans.
- (e) We did not pay any cash dividends in any of the periods presented.
- (f) The amounts included in the line items Capital expenditures, net and Facility expenditures and land purchases reported in our Consolidated Statements of Cash Flows in our Annual Reports on Form 10-K for our fiscal years ended December 31, 2013, 2012 and 2011, have been combined and are shown as Capital expenditures, net in this table.
- (g) Total long-term debt for the years ended December 31, 2015, 2014 and 2013 represent the amounts shown on our Consolidated Balance Sheets under the line items related to long-term debt and the PEAKS Senior Debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read with the Selected Financial Data and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report.

This management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, expenses and contingent assets and liabilities. Actual results may differ from those estimates and judgments under different assumptions or conditions.

In this management's discussion and analysis of financial condition and results of operations, when we discuss factors that contributed to a change in our financial condition or results of operations, we disclose the primary factors that materially contributed to that change in the order of significance.

The information in this management's discussion and analysis of financial condition and results of operations related to 2014 reflects the impact of the Restatements on the affected line items of our consolidated financial statements.

Executive Summary

In 2015, a number of events and factors impacted our results of operations, financial position, cash flows and liquidity, the most significant of which included the following:

new and total student enrollment in education programs decreased, in each case, compared to the prior year;

total operating expenses decreased \$115.6 million;

we made payments aggregating \$43.2 million under the PEAKS Guarantee and the CUSO RSA;

we made principal, interest and fee payments aggregating \$39.5 million under the Financing Agreement;

we received a refund of federal income taxes of \$18.2 million; and

we reduced the amount of cash held as collateral or escrowed funds from \$97.9 million to \$91.2 million.

These events and factors are described further in this management's discussion and analysis of financial condition and results of operations and in the Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

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We continue to have significant cash payment obligations in connection with the PEAKS Program and the CUSO Program. Based on various assumptions, including the historical and projected performance and collection of the PEAKS Trust Student Loans, we believe that we will make payments under the PEAKS Guarantee of approximately:

\$11.7 million in 2016;

\$0.1 million in 2017; and

\$9.7 million in 2020.

Based on various assumptions, including the historical and projected performance and collections of the CUSO Student Loans, we believe that we will make payments under the CUSO RSA of approximately:

\$16.0 million in 2016, which includes, pursuant to the Sixth Amendment to CUSO RSA, \$6.1 million of Regular Payments that were due from June 2015 through December 2015 that we deferred to January 2016, offset by \$0.8 million of recoveries of charged-off loans in 2015 owed to us and \$1.0 million of recoveries estimated to be owed to us in 2016;

\$13.0 million in 2017, which is net of \$1.0 million of recoveries estimated to be owed to us in 2017;

\$13.4 million in 2018, which is net of \$1.0 million of recoveries estimated to be owed to us in 2018; and

approximately \$97.0 million in the aggregate in 2019 and later years.

Our estimates of the future payment amounts under the CUSO RSA and the timing of those payments assume, among other factors, that we do not make any Discharge Payments in 2016 or future years, based on the uncertainty related to the amount of future operating cash flows that will be available to us to make Discharge Payments. If we do make Discharge Payments in any future years, the effect of those Discharge Payments will be to reduce the total amount of our projected future payments under the CUSO RSA.

The estimated amount of future payments under the CUSO RSA assumes that an offset that we made in 2013 of certain payment obligations under the CUSO RSA against the CUSO's obligations owed to us under the Revolving Note will not be determined to have been improper. See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements for a further discussion of that Offset. In the event that Offset is determined to be improper, we may be required to pay the CUSO approximately \$10.2 million, net of approximately \$1.0 million of recoveries from charged-off loans, which would be in addition to the estimated payment amounts set forth above.

We also have debt service and principal repayment obligations under the Financing Agreement. We estimate that the amount of those cash payments will be approximately \$74.5 million in 2016.

In the event of a default by us under the Financing Agreement, the lenders could declare the full amount of the Term Loans then outstanding to be immediately due and payable in full. Our obligations under the Financing Agreement are secured by a security interest in substantially all of our and our subsidiaries' assets, including a mortgage on all of our and our subsidiaries' owned real estate. The covenants under the Financing Agreement could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and/or to make certain payments under the RSAs.

Continued enrollment declines and/or continued increases in use of institutional scholarships and awards would have a negative impact on our revenue, cash flows and financial condition.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our CUSO RSA and PEAKS Guarantee payments, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use to make payments under the CUSO RSA and PEAKS Guarantee or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. Our projections, however, are estimates, which are based on numerous assumptions and, therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties. See Part I, Item 1, Risk Factors and Note 16 Risks and Uncertainties of the Notes to Consolidated Financial Statements for a further discussion of those risks and uncertainties.

Consolidations and Core Operations

Our consolidated financial statements as of and for the fiscal year ended December 31, 2015 include the results of operations, financial condition and cash flows of the CUSO and the PEAKS Trust, two variable interest entities that we were required to consolidate in our consolidated financial statements. Beginning on September 30, 2014, our consolidated financial statements include the CUSO, and beginning on February 28, 2013, our consolidated financial statements include the PEAKS Trust.

We included the CUSO in our consolidated financial statements beginning on September 30, 2014, because we were considered to have the power to direct the activities that most significantly impact the economic performance of the CUSO under ASC 810, Consolidation (ASC 810), on that date. In accordance with ASC 810, we included the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013, because we determined that was the first date that we had the power to direct the activities

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of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements. We do not, however, actively manage the operations of the CUSO or the PEAKS Trust, and the assets of the consolidated CUSO and the consolidated PEAKS Trust can only be used to satisfy the obligations of the CUSO and the PEAKS Trust, respectively. Our obligations under the CUSO RSA remain in effect, until all CUSO Student Loans are paid in full. Our obligations under the PEAKS Guarantee remain in effect, until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. See Note 12 Debt and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

Unless otherwise noted, the information in this management's discussion and analysis of financial condition and results of operations is presented and discussed on a consolidated basis, including the CUSO and the PEAKS Trust as of and following the applicable consolidation dates. Certain information is also provided, however, regarding our results of operations, on a basis that excludes the impact of the CUSO and the PEAKS Trust. We identify and describe our education programs and education-related services on this basis as our core operations ("Core Operations"). The presentation of the Core Operations financial measures differs from the presentation of our consolidated financial measures determined in accordance with generally accepted accounting principles in the United States ("GAAP"). We believe that the presentation of the Core Operations information assists investors in comparing current period information against prior periods during which the CUSO and the PEAKS Trust were not consolidated. In addition, our management believes that the Core Operations information provides useful information to investors, because it:

allows more meaningful information about our ongoing operating results;

helps in performing trend analyses and identifying trends that may otherwise be masked or distorted by items that are not part of the Core Operations; and

provides a higher degree of transparency of our core results of operations.

The following tables set forth selected data from our statements of operations for the years ended:

December 31, 2015, regarding:

the Core Operations on a stand-alone basis;

the PEAKS Trust on a stand-alone basis;

the CUSO on a stand-alone basis; and

the Core Operations, the CUSO and the PEAKS Trust consolidated in accordance with GAAP; and

December 31, 2014, regarding:

the Core Operations on a stand-alone basis;

the PEAKS Trust on a stand-alone basis;

the CUSO on a stand-alone basis;

the elimination of transactions between the CUSO and Core Operations as a result of the CUSO consolidation; and

the Core Operations, the PEAKS Trust and the CUSO consolidated in accordance with GAAP; and

December 31, 2013, regarding:

the Core Operations on a stand-alone basis;

the PEAKS Trust on a stand-alone basis;

the elimination of transactions between the PEAKS Trust and Core Operations as a result of the PEAKS Consolidation; and

the Core Operations and the PEAKS Trust consolidated in accordance with GAAP.

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The information presented related to 2015, 2014 and 2013 also constitutes the reconciliation of our non-GAAP Core Operations, PEAKS Trust and CUSO data to the related GAAP consolidated financial measures. Following the tables, we describe the effect of the PEAKS Consolidation and the CUSO Consolidation, as applicable, on the financial statement information presented, including the components attributable to the Core Operations, the PEAKS Trust and the CUSO. Certain reclassifications have been made to the presentation of the selected data in the following tables for the year ended December 31, 2013 to conform to the current year presentation.

	Year Ended December 31, 2015			
	Core Operations	PEAKS Trust	CUSO	GAAP Consolidated
Statement of Operations Data:				
Revenue	\$ 836,544	\$ 8,702	\$ 4,580	\$ 849,826
Costs and expenses:				
Cost of educational services	390,610	0	0	390,610
Student services and administrative Expenses	340,114	1,892	1,670	343,676
Goodwill and asset impairment	5,203	0	0	5,203
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters	26,093	0	0	26,093
Provision for private education loan losses	0	6,519	(1,436)	5,083
Total costs and expenses	762,020	8,411	234	770,665
Operating income	74,524	291	4,346	79,161
Interest income	86	0	0	86
Interest (expense)	(15,253)	(10,598)	(13,996)	(39,847)
Income (loss) before provision for income taxes	\$ 59,357	\$ (10,307)	\$ (9,650)	\$ 39,400

	Year Ended December 31, 2014				
	Core Operations	PEAKS Trust	CUSO	Eliminations	GAAP Consolidated
Statement of Operations Data:					
Revenue	\$ 949,176	\$ 11,471	\$ 1,136	\$ 0	\$ 961,783
Costs and expenses:					
Cost of educational services	460,782	0	0	0	460,782
Student services and administrative expenses	384,200	4,479	437	0	389,116
Goodwill and asset impairment	2,454	0	0	0	2,454
	32,008	0	0	0	32,008

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Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters					
Loss related to loan program guarantees	2,019	0	0	0	2,019
Provision for private education loan losses	0	12,111	2,039		14,150
Total costs and expenses	881,463	16,590	2,476	0	900,529
Operating income (loss)	67,713	(5,119)	(1,340)	0	61,254
Gain on consolidation of variable interest entities	0	0	(94,970)	111,601	16,631
Interest income	65	0	0	0	65
Interest (expense)	(3,761)	(30,322)	(3,725)	0	(37,808)
Income (loss) before provision for income taxes	\$ 64,017	\$ (35,441)	\$ (100,035)	\$ 111,601	\$ 40,142

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	Year Ended December 31, 2013			
	Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
Statement of Operations Data:				
Revenue	\$ 1,059,315	\$ 12,996	\$ 0	\$ 1,072,311
Costs and expenses:				
Cost of educational services	486,353	0	0	486,353
Student services and administrative expenses	392,253	5,288	0	397,541
Goodwill and asset impairment	0	0	0	0
Legal and professional fees related to certain lawsuits, investigations and accounting matters	6,923	0	0	6,923
Loss related to loan program guarantee	115,503	0	(24,539)	90,964
Provision for private education loan losses	0	29,349	0	29,349
Total costs and expenses	1,001,032	34,637	(24,539)	1,011,130
Operating income (loss)	58,283	(21,641)	24,539	61,181
(Loss) on consolidation of variable interest entities	0	(112,748)	39,500	(73,248)
Interest income	578	0	(470)	108
Interest (expense)	(3,989)	(21,288)	0	(25,277)
Income (loss) before provision for income taxes	\$ 54,872	\$ (155,677)	\$ 63,569	\$ (37,236)

The PEAKS Consolidation and the CUSO Consolidation impact the presentation of our Statements of Operations in a number of ways. Following the applicable Consolidation, our revenue consists of:

revenue from the Core Operations, primarily from tuition, tool kit sales and student fees;

student loan interest income on the PEAKS Trust Student Loans and the CUSO Student Loans (collectively, the Private Education Loans), which is the accretion of the accretable yield on the Private Education Loans; and

administrative fees earned by the CUSO.

Following the applicable Consolidation, our student services and administrative expenses are comprised of:

expenses related to the Core Operations, including marketing expenses, an expense for uncollectible accounts and administrative expenses incurred primarily at our corporate headquarters; and

expenses incurred by the PEAKS Trust and the CUSO, primarily related to fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO.

The loss related to loan program guarantees represents:

in 2013, the contingent liability accruals that we recorded related to the CUSO RSA, because the contingent liability related to the PEAKS Guarantee was eliminated from our consolidated financial statements as a result of the PEAKS Consolidation (though our obligations under the PEAKS Guarantee remain in effect); and

in 2014, the contingent liability accruals that we recorded related to the CUSO RSA prior to September 30, 2014, because after that date, the contingent liability related to the CUSO RSA was eliminated from our consolidated financial statements as a result of the CUSO Consolidation (though our obligations under the CUSO RSA remain in effect).

Following the applicable Consolidation, our provision for private education loan losses in a reporting period represents the increase in the allowance for loan losses that occurred during that period. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the Private Education Loans, discounted by the loan pool's effective interest rate as of December 31, 2015, 2014 or 2013, as applicable.

In the year ended December 31, 2014, we recognized a gain upon the CUSO Consolidation that represented the difference between (i) the fair value of the net liabilities of the CUSO that we recorded upon the CUSO Consolidation, and (ii) the carrying value of the net liabilities related to the CUSO Program that had been recorded in our consolidated financial statements and were eliminated upon the CUSO Consolidation, in each case as of September 30, 2014. In the year ended December 31, 2013, we recognized a loss upon the PEAKS Consolidation that represented the amount by which the fair value of the PEAKS Trust's liabilities exceeded the fair

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value of the PEAKS Trust's assets as of February 28, 2013, partially reduced by the net amount of the carrying value of the assets and liabilities related to the PEAKS Program that had been recorded in our consolidated financial statements as of February 28, 2013 and were eliminated upon the PEAKS Consolidation.

Following the applicable Consolidation, our interest expense includes:

interest expense from matters related to the Core Operations, primarily the interest expense on the outstanding balance under the Amended Credit Agreement (prior to December 4, 2014) and the Financing Agreement (on and after December 4, 2014);

interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt; and

interest expense on the CUSO Secured Borrowing Obligation, which includes the amount of interest expense on the CUSO Student Loans that is accrued for payment to the owners of the CUSO and the accretion of the discount of the adjustment associated with accounting for the CUSO Secured Borrowing Obligation at fair value upon the CUSO Consolidation.

Since the inception of the PEAKS Program, we have guaranteed, and continue to guarantee the payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and the minimum required Asset/Liability Ratio, pursuant to the terms of the PEAKS Guarantee. Our obligations under the PEAKS Guarantee remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full.

Since the inception of the CUSO Program, under the CUSO RSA, we have guaranteed, and continue to guarantee, the repayment of any CUSO Student Loans that are charged off above a certain percentage of the CUSO Student Loans made under the CUSO Program, based on the annual dollar volume. Our obligations under the CUSO RSA remain in effect until all CUSO Student Loans are paid in full. Under the CUSO RSA, we have an obligation to make the monthly payments due and unpaid on those private education loans that have been charged off above a certain percentage (Regular Payments). Instead of making Regular Payments, however, we may elect to discharge our obligations to make Regular Payments on specified charged-off private education loans by:

paying the then outstanding balance (plus accrued and unpaid interest) of those private education loans that have been charged off above a certain percentage and, with respect to which, an amount equal to at least ten monthly payments has been paid; or

paying the then outstanding balance (plus accrued and unpaid interest) of those private education loans that have been charged off above a certain percentage and, with respect to which, an amount equal to at least ten monthly payments has not been paid, plus any interest that would otherwise have been payable until ten monthly payments had been made, discounted at the rate of 10% per annum (collectively, Discharge Payments).

The revenue and expenses of the PEAKS Trust are presented in our Consolidated Statements of Operations following the PEAKS Consolidation. The cash received by the PEAKS Trust, which is derived from its revenue, however, is considered restricted and can only be used to satisfy the obligations of the PEAKS Trust. The revenue and expenses of the CUSO are presented in our Consolidated Statements of Operations following the CUSO Consolidation. The cash received by the CUSO, which is derived from its revenue, however, is considered restricted and can only be used to satisfy the obligations of the CUSO.

General

As of December 31, 2015, we had 138 campus locations in 39 states, which were providing education programs to approximately 45,000 students. In 2015, we derived approximately 97% of our revenue from the Core Operations from tuition and approximately 3% from the sale of tool kits and fees, charged to and paid by, or on behalf of, our students. Most students enrolled in our education programs at our institutions pay a substantial portion of their tuition and other education-related expenses with funds received under various government-sponsored student financial aid programs, especially Title IV Programs.

Our revenue from the Core Operations varies based primarily on the following factors:

the aggregate student population, which is influenced by the number of students attending our institutions at the beginning of a fiscal period and student retention rates;

the amount of tuition charged to our students; and

the levels of availability and utilization of institutional scholarships, grants and awards.

New students generally enter our education programs at the beginning of an academic term that typically begins for most education programs in early March, mid-June, early September and late November or early December. We believe that the changes to our institutions' aggregate student population in recent years was primarily due to:

our prospective students' greater sensitivity to the cost of a postsecondary education;

our prospective students' uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions;

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changes that we made to education program offerings at select campuses, which resulted in a more significant decline in new student enrollment in the criminal justice programs of study compared to our institutions' other curricula; and

the discontinuation or suspension of new student enrollments at select locations.

In order to participate in Title IV Programs, a new campus must be authorized by the state in which it will operate, accredited by an accrediting commission recognized by the ED, and certified by the ED to participate in Title IV Programs. The ED's certification process cannot commence until the location receives its state authorization and accreditation.

We generally earn tuition revenue on a straight-line basis over the length of each of four, 12-week academic quarters in each fiscal year. State regulations, accrediting commission criteria and our policies generally require us to refund a portion of the tuition and fee payments received from a student who withdraws from one of our institutions during an academic term. We recognize immediately the amount of tuition and fees, if any, that we may retain after payment of any refund. Revenue that we recognize after each Consolidation also includes student loan interest income on the related Private Education Loans, which is the accretion of the accretable yield on those Private Education Loans, and administrative fees earned by the CUSO.

We incur expenses throughout a fiscal period in connection with the operation of our institutions. The cost of educational services includes salaries of faculty and institution administrators, cost of course materials, occupancy costs, depreciation and amortization of equipment costs, facilities and leasehold improvements, and other miscellaneous costs incurred by our institutions.

Student services and administrative expenses from the Core Operations include marketing expenses, an expense for uncollectible accounts and administrative expenses incurred primarily at our corporate headquarters. Marketing expenses include advertising expenses and salaries and employee benefits for recruiting representatives. After each Consolidation, student services and administrative expenses also include expenses incurred by the PEAKS Trust and the CUSO, as applicable, primarily related to fees for servicing the Private Education Loans held by that entity and various other administrative fees and expenses of that entity.

In 2015, we continued to add education program offerings among existing campuses. We also continued our efforts to diversify our education program offerings by developing education programs at different degree levels in both technology and non-technology fields of study that we intend to offer at our campuses and deliver entirely in residence, entirely online over the Internet or partially in residence and partially online. In 2015, we did not begin operations at any new ITT Technical Institute campuses or learning sites. As part of our efforts to maximize the efficiency and effectiveness of our current campus locations, during 2015, we:

closed six of our ITT Technical Institute campuses after teaching out or relocating the affected students; and

decreased the number of our campuses that offer bachelor degree programs from 130 to 125.

We also ceased accepting new student enrollment at 10 campus locations, effective with the academic quarter that began in December 2015. During the next 12 months, we will be evaluating the total demands for these markets. During this evaluation period, we do not believe there will be any disruptions to ongoing course work for the

continuously enrolled students, as we will continue to teach classes for those students. The 10 campus locations undergoing these market assessments represented approximately 3% of our new student enrollments, based on our new student enrollment results in the third quarter of 2015.

The following table sets forth select operating statistics for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Additional education program offerings	43	146	348
Additional training program offerings	513	2,397	293
Number of locations with additional education program offerings	29	84	104
Campuses offering bachelor degree programs	125	130	134

The number of additional education and training program offerings decreased in the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to the limited number of instances where we decided to add approved associate and bachelor degree programs to our campuses and our inability to obtain the required approvals from the ED for any new program offerings. In 2016, we intend to add more of our current education program offerings among our institutions' locations. We also plan to continue developing new education programs in both technology and non-technology fields, but primarily in technology- and healthcare-related disciplines. We believe that those programs of study would be at different education levels and delivered in a variety of formats, including entirely in residence, entirely online or partially in residence and partially online. Our ability to execute on this strategy is subject to extensive regulations and restrictions, as discussed further under Business and Risk Factors. In December 2014, the ED did not approve our application to offer four new degree programs at the ITT Technical Institutes due to administrative capability issues reported in recent compliance audits and ED program reviews. In March 2015, the ED approved six and denied two new degree programs that we had applied to offer at Daniel Webster College. The basis for disapproval was due to administrative capability issues reported in recent compliance audits and ED program reviews. In February 2016, the ED disapproved our request for reconsideration of the two new degree programs we had previously applied to offer at DWC, due to administrative

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capability issues reported in recent compliance audits. While our growth strategy continues to include opening new campuses, we do not expect to begin operations at any new campuses in 2016. We plan to continue to evaluate the performance of the current ITT Technical Institute campuses in order to maximize the efficiency and effectiveness of our national network of campuses. As part of this effort, we may suspend enrollments at, and/or relocate and close, additional campuses. We also plan to continue to develop and offer training programs to career advancers and other professionals through the CPD.

Variations in Quarterly Results of Operations

Our quarterly results of operations have tended to fluctuate within a fiscal year due to the timing of student matriculations. Each of our four fiscal quarters has 12 weeks of earned tuition revenue. The academic schedule generally does not affect our incurrence of most of our costs, however, and costs do not fluctuate significantly on a quarterly basis.

The revenue recognized in our fiscal quarters has been impacted by fluctuations in our institutions' total student enrollment. These fluctuations were primarily due to changing patterns of student matriculations and variations in student persistence, which were primarily attributable to the number of graduates in the fiscal quarter and student retention in certain courses. These factors are discussed in greater detail below under Results of Operations. In addition, the increased amount of our institutional scholarships and awards, primarily the Opportunity Scholarship, has reduced revenue per student in the various periods compared to the same prior year periods.

The following table sets forth the Core Operations revenue per student for the periods indicated:

Three Months Ended	Core Operations Revenue per Student					
	2015		2014		2013	
	Amount	Increase (Decrease) from Prior Year	Amount	(Decrease) from Prior Year	Amount	Increase (Decrease) from Prior Year
March 31	\$ 4,222	3.5%	\$ 4,080	(12.2)%	\$ 4,646	0.3%
June 30	4,117	0.1%	4,111	(2.1)%	4,200	(8.9)%
September 30	4,163	(3.7)%	4,323	(0.9)%	4,360	(7.7)%
December 31	4,132	(1.6)%	4,198	(2.9)%	4,323	(7.1)%
Total for Year	\$ 16,635	(0.5)%	\$ 16,712	(4.7)%	\$ 17,529	(5.9)%

Core Operations revenue per student is calculated by dividing all revenue from Core Operations by the total student enrollment in education programs as of the beginning of the applicable fiscal period.

Results of Operations

The following table sets forth the percentage relationship of certain statement of operations data to revenue for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Revenue	100.0%	100.0%	100.0%
Cost of educational services	46.0%	47.9%	45.4%
Student services and administrative expenses	40.4%	40.5%	37.1%
Goodwill and asset impairment	0.6%	0.3%	0.0%
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters	3.1%	3.3%	0.6%
Loss related to loan program guarantees	0.0%	0.2%	8.5%
Provision for private education loan losses	0.6%	1.5%	2.7%
Operating income	9.3%	6.4%	5.7%
Gain (loss) on consolidation of variable interest entities	0.0%	1.7%	(6.8)%
Interest (expense), net	(4.7)%	(3.9)%	(2.3)%
Income (loss) before income taxes	4.6%	4.2%	(3.5)%

The following table sets forth our total student enrollment in education programs as of the dates indicated:

As of December 31,	Total Student Enrollment in Education Programs	(Decrease) from Prior Year
2015	44,922 ⁽¹⁾	(16.3)%
2014	53,646	(6.8)%
2013	57,542	(5.8)%

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(1) Amount reflects the revised definition of a new student that was effective beginning in the quarter ended September 2015, as described below and resulted in approximately 340 fewer students being included in this total student enrollment number than would have been included using the previous definition of new student.

Total student enrollment in education programs includes all new and continuing students. A continuing student is any student who, in the academic term being measured, is enrolled in an education program at one of our campuses and was enrolled in the same program at any of our campuses at the end of the immediately preceding academic term. A new student is any student who, in the academic term being measured, enrolls in and begins attending any education program at one of our campuses:

for the first time at that campus;

after graduating in a prior academic term from a different education program at that campus; or

after having withdrawn or been terminated from an education program at that campus.

Beginning in the three months ended September 30, 2015, we revised our definition of a new student to include any student who (1) met the above criteria, and (2) if the student was a first-time student and was enrolled in an online degree program, continued to attend their program of study beyond the first 15 days of the program's term (or 30 days, if the student was only enrolled in courses that are taught over a 12-week period). Our accounting policies for revenue recognition are not based on the definition of a new student and, therefore, our revenue recognition is not impacted by this revised definition. The impact of this revised definition of new student is to:

exclude those students in our reported new student enrollment for the quarter in which they began attending class, but had not yet continued to attend beyond the applicable time described above;

exclude those same students from our reported total student enrollment for that same quarter; and

if those students continued to attend beyond the applicable time described above, include those same students in our reported new and total student enrollment for the subsequent quarter.

The following table sets forth our new student enrollment in education programs in the periods indicated:

	2015	2014	2013
	New Student Enrollment	New Student Enrollment	New Student Enrollment
	(Decrease)	(Decrease)	(Decrease)
New Student Enrollment in Education Programs in the Three Months Ended: ⁽¹⁾	Program Prior Year	Program Prior Year	Program Prior Year

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March 31	14,104	(15.8)%	16,746	(3.8)%	17,412	(3.6)%
June 30	12,638	(18.6)%	15,523	(8.1)%	16,883	7.5%
September 30	14,943	(18.4)%	18,317	(9.8)%	20,307	5.2%
December 31	10,478	(17.1)%	12,639	(9.7)%	13,995	4.5%
Total for the year	52,163	(17.5)%	63,225	(7.8)%	68,597	3.2%

(1) New student enrollment for periods prior to September 30, 2015 do not reflect the revised definition of new student that became effective in the three months ended September 30, 2015.

We believe that the 17.1% decrease in new student enrollment in education programs in the three months ended December 31, 2015 compared to the three months ended December 31, 2014, the 18.4% decrease in new student enrollment in the three months ended September 30, 2015 compared to the three months ended September 30, 2014, the 18.6% decrease in new student enrollment in the three months ended June 30, 2015 compared to the three months ended June 30, 2014 and the 15.8% decrease in new student enrollment in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 were primarily due to:

a decrease in the rate at which prospective students who inquired about our education programs actually began attending classes in their education program in each of the three months ended December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015 compared to the same prior year period;

greater sensitivity to the cost of postsecondary education; and

uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions.

New student enrollment in the three months ended December 31, 2015 compared to the three months ended December 31, 2014 was also impacted by our decision to cease accepting new student enrollment at 10 campus locations, effective with the academic quarter that began in December 2015.

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A continued decline in new and total student enrollment in education programs could have a material adverse effect on our business, financial condition, revenue and other results of operations and cash flows. We have taken a number of steps in an attempt to reverse the declines in total and new student enrollment in education programs, including, without limitation:

conducting comprehensive market research to better understand prospective student perspectives and needs;

redesigning our website to improve user experience and usability;

refining our marketing, advertising and communications to better target our messaging, including focusing more on the student value proposition and outcomes of an ITT Technical Institute education;

maintaining the availability of institutional scholarships, primarily the Opportunity Scholarship, which are intended to help reduce the cost of an ITT Technical Institute education and increase student access to our education programs;

investing in enhanced training for our admissions representatives; and

increasing our frequency and methods of communicating with prospective students.

At the vast majority of our campuses, we generally organize the academic schedule for education programs offered on the basis of four 12-week academic quarters in a calendar year. The academic quarters typically begin in early March, mid-June, early September and late November or early December. To measure the persistence of our students, the number of continuing students in any academic term is divided by the total student enrollment in education programs in the immediately preceding academic term.

The following table sets forth the rates of our students' persistence as of the dates indicated:

Year	Student Persistence as of:			
	March 31	June 30	September 30	December 31
2015	69.2%	68.8%	69.5%	71.4%
2014	70.2%	70.0%	69.9%	71.8%
2013	71.5%	68.4%	69.4%	71.4%

We believe that the decrease in student persistence as of December 31, 2015 compared to December 31, 2014 was due to lower student retention in certain associate degree programs of study in the three months ended December 31, 2015 compared to the same prior year period. We believe that the decrease in student persistence as of each of September 30, June 30, and March 31, 2015 compared to the same date in the prior year was primarily due to lower student retention in certain associate degree programs of study and, to a lesser degree, an increase in graduates in the three months ended September 30, 2015, June 30, 2015 and March 31, 2015 compared to the same prior year period.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014. Revenue decreased \$112.0 million, or 11.6%, to \$849.8 million in the year ended December 31, 2015 compared to \$961.8 million in the year ended December 31, 2014. The primary factor that contributed to this decrease was an average 13.9% decrease in total student enrollment in education programs as of the end of each fiscal quarter in 2015 compared to 2014. The decrease in revenue resulting from decreases in total student enrollment was partially offset by a decrease in the average amount of institutional scholarships and awards provided per student in the year ended December 31, 2015, compared to the year ended December 31, 2014.

Revenue of the PEAKS Trust is comprised of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans. Revenue of the PEAKS Trust decreased \$2.8 million, or 24.1%, to \$8.7 million in the year ended December 31, 2015 compared to \$11.5 million in the year ended December 31, 2014.

Revenue of the CUSO is comprised of (i) interest income on the CUSO Student Loans, which is the accretion of the accretable yield on the CUSO Student Loans, and (ii) an administrative fee paid by the owners of the CUSO (the CUSO Participants) to the CUSO on a monthly basis (Administrative Fee). Revenue attributable to the interest income on the CUSO Student Loans was approximately \$2.9 million in the year ended December 31, 2015 compared to \$0.7 million in the year ended December 31, 2014. Revenue attributable to the Administrative Fee was approximately \$1.7 million in the year ended December 31, 2015, compared to \$0.4 million in the year ended December 31, 2014. Beginning on September 30, 2014, our consolidated financial statements include the CUSO. Therefore, the year ended December 31, 2014 includes only three months of operating results for the CUSO, compared to 12 months for the year ended December 31, 2015.

Cost of educational services decreased \$70.2 million, or 15.2%, to \$390.6 million in the year ended December 31, 2015 compared to \$460.8 million in the year ended December 31, 2014. The primary factors that contributed to this decrease included:

decreases in compensation costs and benefit costs resulting from fewer employees;

a decrease in course supplies as a result of lower total student enrollments; and

a decrease in campus operating costs resulting from fewer locations.

Cost of educational services as a percentage of revenue decreased 190 basis points to 46.0% in the year ended December 31, 2015 compared to 47.9% in the year ended December 31, 2014. The primary factors that contributed to this decrease were decreases in compensation costs and benefit costs, course supplies and campus operating costs, which were partially offset by a decline in revenue.

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Student services and administrative expenses decreased \$45.4 million, or 11.7%, to \$343.7 million in the year ended December 31, 2015 compared to \$389.1 million in the year ended December 31, 2014. The principal causes of this decrease were decreases in bad debt expense, media advertising costs and compensation and benefit costs. Approximately \$1.9 million of expenses of the PEAKS Trust and \$1.7 million of expenses of the CUSO were included in student services and administrative expenses in the year ended December 31, 2015. Those expenses primarily represented fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO. In the year ended December 31, 2014, approximately \$4.5 million of expenses of the PEAKS Trust and \$0.4 million of expenses of the CUSO were included in student services and administrative expenses. The amount of the fees for servicing the PEAKS Trust Student Loans are based on the outstanding balance of non-defaulted PEAKS Trust Student Loans, and the amount of the other administrative fees and expenses of the PEAKS Trust are based on the outstanding principal balance of the PEAKS Senior Debt. The amount of the fees for servicing the CUSO Student Loans is based on the number of loans that have not defaulted and the payment status of the loans.

Student services and administrative expenses was 40.4% of revenue in the year ended December 31, 2015 compared to 40.5 % of revenue in the year ended December 31, 2014. The principal causes of this decrease were decreases in bad debt expense, media advertising and compensation and benefit costs, which were partially offset by the decline in revenue. Bad debt expense as a percentage of revenue decreased to 4.1% in the year ended December 31, 2015 compared to 6.6% in the year ended December 31, 2014, primarily as a result of a reduction in internal student financing from the utilization of the Opportunity Scholarship and other institutional scholarships and awards.

In the year ended December 31, 2015, we recorded an impairment charge of \$5.2 million for the impairment of goodwill associated with the acquisitions of Cable Holdings and the Ascolta business. In the year ended December 31, 2014, we recorded an impairment charge of \$2.0 million for the impairment of goodwill associated with the acquisitions of Cable Holdings and the Ascolta business, and an impairment charge of \$0.4 million for the impairment of the trademark associated with the acquisition of Daniel Webster College. The amount of each impairment charge equaled the difference between the estimated fair value of the goodwill or trademark and its carrying value as of the impairment testing date. The determination of the estimated fair value requires the use of assumptions, which may change in future periods. See Note 11 Goodwill and Other Intangibles of the Notes to Consolidated Financial Statements.

Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters decreased \$5.9 million, or 18.5%, to \$26.1 million in the year ended December 31, 2015 compared to \$32.0 million in the year ended December 31, 2014. In the year ended December 31, 2015, these expenses related primarily to settlements of securities related actions and legal and professional fees associated with:

the lawsuit filed by the SEC against us, one of our executive officers and one of our former executive officers;

the lawsuit filed against us by the CFPB;

the securities class action and shareholder derivative lawsuits filed against us;

the investigation of us by various state Attorneys General; and

certain other legal and accounting matters.

In the year ended December 31, 2014, these expenses related primarily to legal and professional fees associated with:

the investigation of us by the SEC;

the lawsuit filed against us by the CFPB;

the investigation of us by various state Attorneys General;

the lawsuit filed against us by the New Mexico Attorney General;

the securities class action and shareholder derivative lawsuits filed against us;

certain lawsuits, investigations and accounting matters;

a letter agreement, dated as of March 17, 2014, that we entered into with the trustee under the PEAKS Program and the holders of the PEAKS Senior Debt (the PEAKS Letter Agreement), in order to resolve differing interpretations of the permissibility of payments on behalf of borrowers that we made; and

certain other legal and regulatory matters.

See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for further information about those matters.

We did not record a loss related to loan program guarantees in the year ended December 31, 2015 because the PEAKS Trust and CUSO were consolidated in our consolidated financial statements. We recorded a loss related to loan program guarantees with respect to the CUSO RSA of \$2.0 million in the year ended December 31, 2014. The entire amount of the loss recorded in the year ended December 31, 2014 related to a change in accounting estimate of the amount of our guarantee obligations under the CUSO RSA, which was primarily due to continued deterioration in the repayment performance of the CUSO Student Loans. See Note 8 Variable Interest Entities and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

In the year ended December 31, 2015, we recorded a provision for private education loan losses of approximately \$5.1 million compared to \$14.2 million in the year ended December 31, 2014. The provision for private education loan losses in the year ended

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December 31, 2015 represented the increase in the allowance for loan losses on the PEAKS Trust Student Loans and CUSO Student Loans that occurred from January 1, 2015 through December 31, 2015, partially offset by recoveries received from private education loans that were charged off prior to the Consolidations. In the year ended December 31, 2014, the provision for private education loan losses represented (a) the increase in the allowance for loan losses on the PEAKS Trust Student Loans that occurred from January 1, 2014 through December 31, 2014, and (b) the increase in the allowance for loan losses on the CUSO Student Loans that occurred from September 30, 2014 through December 31, 2014.

Operating income increased \$17.9 million, or 29.2%, to \$79.2 million in the year ended December 31, 2015 compared to \$61.3 million in the year ended December 31, 2014, primarily as a result of the impact of the factors discussed above in connection with revenue, cost of educational services, student services and administrative expenses, goodwill impairment, settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters, loss related to loan program guarantees and provision for private education loan losses. Our operating margin increased to 9.3% in the year ended December 31, 2015 compared to 6.4% in the year ended December 31, 2014, primarily due to the impact of the factors discussed above.

In the year ended December 31, 2015, we did not record a gain or loss on the consolidation of a variable interest entity because we did not consolidate any new variable interest entities in 2015. In the year ended December 31, 2014, we recorded a gain upon the consolidation of a variable interest entity (the CUSO) of \$16.6 million. Upon the CUSO Consolidation, we recorded the CUSO's assets and liabilities at their fair value in our consolidated financial statements and we eliminated the carrying value of the assets and liabilities related to the CUSO Program that had been recorded in our consolidated financial statements as of September 30, 2014. The fair value of the CUSO's liabilities exceeded the fair value of the CUSO's assets as of September 30, 2014 by approximately \$95.0 million. As of September 30, 2014, the carrying value of the liabilities related to the CUSO Program that had been recorded in our consolidated financial statements exceeded the carrying value of the assets related to the CUSO Program that had been recorded in our consolidated financial statements by approximately \$111.6 million. As a result, we recognized a total gain of approximately \$16.6 million in our consolidated financial statements for the year ended December 31, 2014, which represented the difference between (i) the fair value of the net liabilities of the CUSO that we recorded upon the CUSO Consolidation, and (ii) the carrying value of the net liabilities related to the CUSO Program that had been recorded in our consolidated financial statements and were eliminated upon the CUSO Consolidation, in each case, as of September 30, 2014. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Consolidation.

Interest income was less than \$0.1 million in the years ended December 31, 2015 and December 31, 2014.

Interest expense increased \$2.0 million, or 5.4%, to \$39.8 million in the year ended December 31, 2015 compared to \$37.8 million in the year ended December 31, 2014, primarily due to:

interest expense of approximately \$14.0 million related to the CUSO Secured Borrowing Obligation in the year ended December 31, 2015, which was for a 12 month period, compared to \$3.7 million in the year ended December 31, 2014, which was for a three month period due to the consolidation of the CUSO beginning on September 30, 2014; and

an increase in the amount of our average outstanding borrowings and the effective interest rate on those borrowings in the year ended December 31, 2015 compared to the year ended December 31,

2014.

The increase in interest expense was partially offset by a decrease in interest expense of \$19.7 million related to the PEAKS Senior Debt in the year ended December 31, 2015 compared to the year ended December 31, 2014. Interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt, was \$10.6 million in the year ended December 31, 2015, compared to \$30.3 million in the year ended December 31, 2014. See Note 12 Debt of the Notes to Consolidated Financial Statements, for further information about interest expense and effective interest rates under the Financing Agreement and Amended Credit Agreement.

Our combined federal and state effective income tax rate was 40.9% in the year ended December 31, 2015 compared to 41.9% in the year ended December 31, 2014. Our effective income tax rate was lower in the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to favorable settlements of certain state income tax matters.

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013. Revenue decreased \$110.5 million, or 10.3%, to \$961.8 million in the year ended December 31, 2014 compared to \$1,072.3 million in the year ended December 31, 2013. The primary factors that contributed to this decrease were:

an increase in institutional scholarships and awards provided to our students, which reduced revenue by \$90.6 million in the year ended December 31, 2014 compared to the prior year; and

an average 6.2% decrease in total student enrollment in education programs as of the end of each fiscal quarter in 2014 compared to 2013.

The increase in institutional scholarships and awards was primarily due to the introduction of the Opportunity Scholarship at the vast majority of the ITT Technical Institute campuses in the academic quarter that began in March 2013 and the expanded availability and increased utilization of the Opportunity Scholarship since its introduction.

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Revenue of the PEAKS Trust is comprised of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans. Revenue of the PEAKS Trust decreased \$1.5 million, or 11.7%, to \$11.5 million in the year ended December 31, 2014 compared to \$13.0 million in the year ended December 31, 2013.

Revenue of the CUSO is comprised of (i) interest income on the CUSO Student Loans, which is the accretion of the accretable yield on the CUSO Student Loans, and (ii) an Administrative Fee paid by the CUSO Participants to the CUSO. Revenue attributable to the interest income on the CUSO Student Loans was approximately \$0.7 million and revenue attributable to the Administrative Fee was approximately \$0.4 million in the year ended December 31, 2014. No interest income on the CUSO Student Loans or revenue attributable to the Administrative Fee was included in revenue in the year ended December 31, 2013, because the CUSO Consolidation was effective September 30, 2014.

Cost of educational services decreased \$25.6 million, or 5.3%, to \$460.8 million in the year ended December 31, 2014 compared to \$486.4 million in the year ended December 31, 2013. The primary factors that contributed to this decrease included:

decreases in compensation costs and benefit costs resulting from fewer employees; and

a decrease in occupancy costs as a result of fewer physical locations and reduced square footage.

These decreases were partially offset by an increase in the cost of electronic devices issued to students as part of a transition from physical to electronic books.

Cost of educational services as a percentage of revenue increased 250 basis points to 47.9% in the year ended December 31, 2014 compared to 45.4% in the year ended December 31, 2013. The primary factors that contributed to this increase was a decline in revenue and an increase in the cost of electronic devices issued to students, which was partially offset by decreases in compensation costs and benefit costs and a decrease in occupancy costs.

Student services and administrative expenses decreased \$8.4 million, or 2.1%, to \$389.1 million in the year ended December 31, 2014 compared to \$397.5 million in the year ended December 31, 2013. The principal causes of this decrease were decreases in compensation costs, benefit costs and bad debt expense. Approximately \$4.5 million of expenses of the PEAKS Trust and \$0.4 million of expenses of the CUSO were included in student services and administrative expenses in the year ended December 31, 2014. Those expenses primarily represented fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO. In the year ended December 31, 2013, \$5.3 million of expenses of the PEAKS Trust were included in student services and administrative expenses, which primarily represented fees for servicing the PEAKS Trust Student Loans and various other administrative fees and expenses of the PEAKS Trust. The amount of the fees for servicing the PEAKS Trust Student Loans are based on the outstanding balance of non-defaulted PEAKS Trust Student Loans, and the amount of the other administrative fees and expenses of the PEAKS Trust are based on the outstanding principal balance of the PEAKS Senior Debt. The amount of the fees for servicing the CUSO Student Loans is based on the number of loans that have not defaulted and the payment status of the loans.

Student services and administrative expenses increased to 40.5% of revenue in the year ended December 31, 2014 compared to 37.1 % of revenue in the year ended December 31, 2013. The principal cause of this increase was the decline in revenue, which was partially offset by decreases in compensation costs and benefit costs and bad debt expense. Bad debt expense as a percentage of revenue increased to 6.6% in the year ended December 31, 2014

compared to 6.3% in the year ended December 31, 2013, primarily as a result of a decrease in collections on accounts receivable balances of students no longer enrolled in a program of study.

In the year ended December 31, 2014, we recorded an impairment charge of \$2.0 million for the impairment of goodwill associated with the acquisitions of Cable Holdings and the Ascolta business, and an impairment charge of \$0.4 million for the impairment of the trademark associated with the acquisition of Daniel Webster College. The amount of each impairment charge equaled the difference between the estimated fair value of the goodwill or trademark and its carrying value as of the impairment testing date. The determination of the estimated fair value requires the use of assumptions, which may change in future periods. See Note 11 Goodwill and Other Intangibles of the Notes to Consolidated Financial Statements. We did not record an impairment charge in the year ended December 31, 2013 for goodwill or other intangible assets.

Settlement and legal and professional fees related to certain lawsuits, investigations and accounting matters increased \$25.1 million, or 362.3%, to \$32.0 million in the year ended December 31, 2014 compared to \$6.9 million in the year ended December 31, 2013. In the year ended December 31, 2014, these expenses related primarily to legal and professional fees associated with:

the investigation of us by the SEC;

the lawsuit filed against us by the CFPB;

the investigation of us by various state Attorneys General;

the lawsuit filed against us by the New Mexico Attorney General;

the securities class action lawsuits filed against us;

legal and professional fees related to certain lawsuits, investigations and accounting matters;

a letter agreement, dated as of March 17, 2014, that we entered into with the trustee under the PEAKS Program and the holders of the PEAKS Senior Debt (the PEAKS Letter Agreement), in order to resolve differing interpretations of the permissibility of payments on behalf of borrowers that we made; and

certain other legal and regulatory matters.

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In the year ended December 31, 2013, these expenses related primarily to legal fees associated with the SEC investigation of us, the CFPB investigation of us and the securities class action lawsuits filed against us. See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for further information about those matters.

In the year ended December 31, 2014, we recorded a loss related to loan program guarantees of \$2.0 million for the CUSO RSA compared to \$91.0 million in the year ended December 31, 2013 for the CUSO RSA. The entire amount of the loss recorded in the year ended December 31, 2013 related to a change in our accounting estimate for the amount of our guarantee obligations under the CUSO RSA. We revised our estimate for the CUSO RSA based on our enhanced default rate methodology and more recent performance data that we obtained in the three months ended December 31, 2013. The primary enhancements and performance data included:

an adjustment to the default estimates for student borrowers as a result of recently obtained actual default data for similarly-situated student borrowers;

an adjustment to the default rate expectations, due to declines in repayment performance;

our ability to make Discharge Payments; and

a lower expectation for collections on defaulted loans as a result of the performance to date of collections.

See Note 8 Variable Interest Entities and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

The provision for private education loan losses of approximately \$14.2 million in the year ended December 31, 2014 represented the increase in the allowance for loan losses on the PEAKS Trust Student Loans that occurred from January 1, 2014 through December 31, 2014 and the increase in the allowance for loan losses on the CUSO Student Loans that occurred from September 30, 2014 through December 31, 2014. The provision for private education loan losses of approximately \$29.3 million in the year ended December 31, 2013 represented the increase in the allowance for loan losses on the PEAKS Trust Student Loans that occurred from February 28, 2013 through December 31, 2013. We did not consolidate the CUSO in our consolidated financial statements in the year ended December 31, 2013, and, therefore, we did not include the CUSO Student Loans in our consolidated financial statements or recognize any provision for CUSO Student Loan losses in that year.

Operating income increased \$0.1 million, or 0.1%, to \$61.3 million in the year ended December 31, 2014 compared to \$61.2 million in the year ended December 31, 2013, primarily as a result of the impact of the factors discussed above in connection with revenue, cost of educational services, student services and administrative expenses, goodwill impairment, settlement and legal and professional fees related to certain lawsuits, investigations and accounting matters, loss related to loan program guarantees and provision for private education loan losses. Our operating margin increased to 6.4% in the year ended December 31, 2014 compared to 5.7% in the year ended December 31, 2013, primarily due to the impact of the factors discussed above.

In the year ended December 31, 2014, we recorded a gain upon the consolidation of a variable interest entity (the CUSO) of \$16.6 million, compared to a loss upon the consolidation of a variable interest entity (the PEAKS Trust) of \$73.2 million in the year ended December 31, 2013. Upon the CUSO Consolidation, we recorded the CUSO's assets and liabilities at their fair value in our consolidated financial statements and we eliminated the carrying value of the assets and liabilities related to the CUSO Program that had been recorded in our consolidated financial statements as of September 30, 2014. The fair value of the CUSO's liabilities exceeded the fair value of the CUSO's assets as of September 30, 2014 by approximately \$95.0 million. As of September 30, 2014, the carrying value of the liabilities related to the CUSO Program that had been recorded in our consolidated financial statements exceeded the carrying value of the assets related to the CUSO Program that had been recorded in our consolidated financial statements by approximately \$111.6 million. As a result, we recognized a total gain of approximately \$16.6 million in our consolidated financial statements for the year ended December 31, 2014, which represented the difference between (i) the fair value of the net liabilities of the CUSO that we recorded upon the CUSO Consolidation, and (ii) the carrying value of the net liabilities related to the CUSO Program that had been recorded in our consolidated financial statements and were eliminated upon the CUSO Consolidation, in each case, as of September 30, 2014. In the year ended December 31, 2013, the loss upon the PEAKS Trust Consolidation of \$73.2 million represented the amount by which the fair value of the PEAKS Trust's liabilities exceeded the fair value of the PEAKS Trust's assets as of February 28, 2013 upon the PEAKS Consolidation, partially reduced by the net amount of the carrying value of the assets and liabilities related to the PEAKS Program that had been recorded in our consolidated financial statements as of February 28, 2013 and were eliminated upon the PEAKS Consolidation. See Note 8 – Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations.

Interest income was less than \$0.1 million in the year ended December 31, 2014 and approximately \$0.1 million in December 31, 2013.

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Interest expense increased \$12.5 million, or 49.6%, to \$37.8 million in the year ended December 31, 2014 compared to \$25.3 million in the year ended December 31, 2013, primarily due to:

interest expense of approximately \$30.3 million related to the PEAKS Senior Debt, which includes the contractual interest and the accretion of the discount on the PEAKS Senior Debt, compared to \$21.3 million in the year ended December 31, 2013;

interest expense of approximately \$3.7 million related to the CUSO Secured Borrowing Obligation in the year ended December 31, 2014, compared to none in the year ended December 31, 2013; and

an increase in the effective interest rate under the Amended Credit Agreement, which was partially offset by a decrease in our weighted average outstanding borrowings under the Amended Credit Agreement.

Our combined federal and state effective income tax rate was 41.9% in the year ended December 31, 2014 compared to 27.4% in the year ended December 31, 2013. We recorded pretax consolidated income in the year ended December 31, 2014 compared to a pretax consolidated loss in the year ended December 31, 2013. Our effective income tax rate was lower in the year ended December 31, 2013 compared to the year ended December 31, 2014 primarily due to certain losses related to the PEAKS Trust that were included in our consolidated pretax loss for which an income tax benefit was not recognized.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents were \$130.9 million as of December 31, 2015 compared to \$135.9 million as of December 31, 2014. The \$5.0 million decrease in cash and cash equivalents as of December 31, 2015 compared to December 31, 2014 was primarily due to payments related to our RSA obligations and the Term Loans that resulted in principal reductions totaling approximately:

\$39.8 million related to the PEAKS Senior Debt;

\$10.4 million related to the CUSO Secured Borrowing Obligation; and

\$30.3 million under the Financing Agreement.

The reduction in cash and cash equivalents was partially offset by net cash flows generated from operating activities of \$76.7 million.

See Note 12 Debt and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the payments we made related to the Financing Agreement and the private education loan programs.

On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures have resulted in the delay of our Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations. The letter also states that we are required to provide certain additional information and reporting to the ED on a regular basis. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED.

Our Consolidated Balance Sheets as of December 31, 2015 and 2014 included the assets and liabilities of the PEAKS Trust and the CUSO. The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust and the assets of the CUSO can only be used to satisfy the obligations of the CUSO.

Restricted cash of \$6.0 million as of December 31, 2015 included approximately \$1.5 million of funds held by the PEAKS Trust and \$4.0 million of funds held by the CUSO. Restricted cash of \$6.0 million as of December 31, 2014 included approximately \$1.6 million of funds held by the PEAKS Trust and \$2.5 million of funds held by the CUSO. Although the funds held by the PEAKS Trust and the CUSO are included on our Consolidated Balance Sheets after the related Consolidation, those funds can only be used to satisfy the obligations of the PEAKS Trust and the CUSO, as applicable. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations.

The PEAKS Trust's ability to satisfy its obligations is based on payments received from borrowers on the PEAKS Trust Student Loans and collections on the PEAKS Trust Student Loans that have defaulted. To the extent that those payments and collections from borrowers on the PEAKS Trust Student Loans are not sufficient to satisfy the obligations of the PEAKS Trust, including the PEAKS Senior Debt, we are required to make payments under the PEAKS Guarantee.

We have significant payment obligations under the PEAKS Guarantee and the CUSO RSA. Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt (Asset/Liability Ratio). Our guarantee obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. Under the CUSO RSA, we guarantee the repayment of any CUSO Student Loans that are charged off above a certain percentage of the CUSO Student Loans made under the CUSO Program, based on the annual dollar volume. Our obligations under the CUSO RSA remain in effect until all CUSO Student Loans are paid in full. See Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements for a further discussion of the PEAKS Guarantee and CUSO RSA.

We believe that we will make payments in 2016 of approximately \$11.7 million under the PEAKS Guarantee and approximately \$16.0 million, net of \$1.8 million in recoveries, under the CUSO RSA. As revised pursuant to Amendment No. 2, the Financing

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Agreement limits the aggregate amount of payments that we can make related to the PEAKS Guarantee and the CUSO RSA to \$35.0 million under both programs in any year after 2015 that the Financing Agreement is in effect. We also expect to make payments aggregating approximately \$74.5 million in 2016 under the Financing Agreement. For a detailed description of our obligations under the Financing Agreement and the repayment amounts that we expect to pay in 2016, see Note 12 Debt of the Notes to Consolidated Financial Statements.

We expect to make significant payments after 2016 under the PEAKS Guarantee and the CUSO RSA. For a detailed description of our obligations under the PEAKS Guarantee and the CUSO RSA, the amounts that we estimate we may have to pay pursuant to those obligations in the future and certain disputes and other matters relating to the RSAs, see Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

If we are required to pay amounts that exceed the amounts that we estimated could be due under the RSAs or the Financing Agreement, or if our estimated timing of the required payments under any of those obligations changes, we may not have cash and other sources of funds sufficient to make those payments. Failure to make required payments:

would constitute a default under the applicable documents;

could result in cross-defaults under other obligations; and

could have a material adverse effect on our compliance with the regulations of the ED, state education and professional licensing authorities, the accrediting commissions that accredit our institutions and other agencies that regulate us.

In addition, payments that we do make under the RSAs and the Financing Agreement will reduce the cash we have available to use for other purposes, including to make required payments under the other obligations, and will reduce our cash balance, which could negatively impact our ability to satisfy the ED's financial responsibility measurements, the financial requirements of the SAs or the financial metrics to which we are subject under the applicable obligations. Failure to satisfy those other obligations or standards could have a material adverse effect on our financial condition, results of operations and cash flows.

On October 31, 2014, the ED Letter of Credit in the amount of \$79.7 million was issued for our account. Pursuant to the Amended Credit Agreement, we were required to provide cash collateral in an amount equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit. We satisfied those collateral obligations for the letters of credit by providing approximately \$89.3 million in cash collateral utilizing proceeds from the Term Loans and other funds in 2014. On December 16, 2015, we entered into an agreement with the ED to provide funds to the ED for the ED to maintain in an escrow account in lieu of the ED Letter of Credit. As of December 31, 2015 the amount of ED Escrowed Funds held by the ED was \$79.7 million. The ED Letter of Credit was cancelled effective December 22, 2015.

In December 2015, instead of issuing a letter of credit, we provided cash collateral to one of our insurance carriers to secure our obligations in connection with certain workers' compensation insurance policies. We can replace the cash collateral with a letter of credit at our option at any time. As of December 31, 2015, the amount of funds that we had deposited with the insurance carrier was \$2.2 million. We deposited an additional \$0.6 million of cash collateral for our workers' compensation obligations in January 2016.

As a result of replacing the letters of credit, we reduced the amount of funds held by third parties related to those matters by \$6.8 million as of December 31, 2015 and an additional \$0.6 million in January 2016. We utilized the proceeds from the return of the cash collateral to repay \$7.2 million of outstanding principal under the Term Loans.

As of December 31, 2015, approximately \$82.5 million was held as cash collateral or escrowed funds for our obligations to the ED, insurance carrier and one letter of credit to a state regulatory agency. This cash collateral and the escrowed funds are reflected in the line item Collateral deposits on our Consolidated Balance Sheets. These funds are not available for use by us, and could be used by the third parties to satisfy our obligations if certain conditions are met. The fact that a significant amount of our cash is held by third parties could also negatively affect our ability to satisfy the financial metrics of the ED, SAs and ACs to which we are subject.

Pursuant to the CUSO RSA, we are required to maintain collateral to secure our guarantee obligation in an amount equal to a percentage of the outstanding balance of the private education loans disbursed to our students under the CUSO Program. As of December 31, 2015 and 2014, the total amount of this collateral was approximately \$8.6 million, and was included in the line item Collateral deposits on our Consolidated Balance Sheets. The funds held as cash collateral related to the CUSO RSA are not available for use by us, and could be withdrawn by the CUSO, in which case we would be required to deposit that amount of cash in the account to maintain the required level of collateral. The CUSO has notified us that it had taken control of the restricted account containing the cash collateral, as described further in Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

In 2014, we also utilized a portion of the proceeds of the Term Loans and other funds to repay \$50.0 million of outstanding loans under the Amended Credit Agreement. See Note 12 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the Term Loans and our use of those proceeds.

We are required to recognize the funded status of our defined benefit postretirement plans on our balance sheet. We recorded an asset of \$29.4 million for the ESI Pension Plan, a non-contributory defined benefit pension plan commonly referred to as a cash balance plan, and a liability of \$0.2 million for the ESI Excess Pension Plan, a nonqualified, unfunded retirement plan, on our Consolidated Balance Sheet as of December 31, 2015. As of December 31, 2014, we recorded an asset of \$29.0 million for the ESI Pension Plan and a liability of \$0.3 million for the ESI Excess Pension Plan. In order to determine those amounts, we performed an actuarial valuation of the ESI Pension Plan and ESI Excess Pension Plan (the Pension Plans), and reviewed and updated our key assumptions as part of each valuation, including the discount rate and expected long-term rate of return on the investments.

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Effective March 31, 2006, the benefit accruals under the Pension Plans were frozen, such that no further benefits accrue under those plans after March 31, 2006. Participants in the Pension Plans, however, continue to be credited with vesting service and interest according to the terms of the Pension Plans. Total net pension benefit in the year ended December 31, 2015 was \$5.1 million, compared to \$4.6 million in the year ended December 31, 2014 and \$2.1 million in the year ended December 31, 2013. We expect our total net pension benefit in 2016 to be approximately the same as our total net pension benefit recognized in 2015.

We did not make any contributions to the Pension Plans in 2015 or 2014. We do not expect to make any material contributions to either of the Pension Plans in 2016.

See Note 14 Employee Benefit Plans of the Notes to Consolidated Financial Statements, for a more detailed discussion of the Pension Plans.

Capital Resources. Our cash flows are highly dependent upon the receipt of Title IV Program funds. The primary Title IV Programs from which the students at our campuses receive grants, loans and other aid to fund the cost of their education include:

the FDL program, which represented, in aggregate, approximately 56% of our cash receipts in 2015 and 57% of our cash receipts in 2014; and

the Pell program, which represented, in aggregate, approximately 23% of our cash receipts in 2015 and 24% of our cash receipts in 2014.

We also receive funds on behalf of our students from state financial aid programs, veterans and military service member benefit programs and other sources, which represented, in aggregate, approximately 14% of our cash receipts in 2015 and approximately 14% in 2014.

Under a provision of the HEA commonly referred to as the 90/10 Rule, a proprietary institution, such as each of our institutions, must not derive more than 90% of its applicable revenue in a fiscal year, on a cash accounting basis, from Title IV Programs. If an institution exceeds the 90% threshold for any single fiscal year, then that institution would be placed on provisional certification status for the institution's following two fiscal years. In addition, if an institution exceeds the 90% threshold for two consecutive fiscal years, it would be ineligible to participate in Title IV Programs as of the first day of the following fiscal year and would be unable to apply to regain its eligibility until the end of the second subsequent fiscal year. Payments that we made under the 2007 RSA impact the 90/10 Rule calculation by reducing the amount of cash receipts from sources other than Title IV Programs and total cash receipts. As a result of the PEAKS Consolidation and CUSO Consolidation, disbursements of the private education loans that we received under the PEAKS Program and CUSO Program are no longer considered cash proceeds from external sources for purposes of determining total cash receipts in the 90/10 Rule calculation. The amount of payments received by the PEAKS Trust and CUSO from borrowers is included, however, in both the total receipts component and the cash receipts from sources other than Title IV Programs component of the 90/10 Rule calculation.

In our 2015 and 2014 fiscal years, none of our institutions derived more than approximately 80% of its revenue from Title IV Programs under the 90/10 Rule calculation. In the aggregate, we derived approximately 80% of our revenue in 2015 and 80% of our revenue in 2014 from Title IV Programs under the 90/10 Rule calculation.

Federal regulations affect the timing of our receipt and disbursements of Title IV Program funds. These regulations require institutions to disburse all Title IV Program funds by payment period. For most of our campuses, the payment period is an academic term. Our campuses generally disburse the first installment of an FDL program loan to a first-year undergraduate student who was a first-time borrower 30 or more days after the student begins his or her education program. We disburse Title IV Program funds to other students enrolled in education programs after those students have begun attending their scheduled classes and met eligibility requirements.

During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. Beginning with the June 2013 academic quarter, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. As a result of our institutional scholarships and awards granted in 2015 and 2014, we received minimal cash payments from private education loan lenders related to our students' cost of education in 2015 and 2014.

As an institutional scholarship, in addition to us not receiving any cash payment when amounts are awarded under the Opportunity Scholarship, students are not obligated to make payments to us of amounts awarded under the Opportunity Scholarship. Therefore, the accounts receivable from students to us, as well as revenue, decreased beginning in 2013, as we began awarding the Opportunity Scholarship at all of our ITT Technical Institute campuses. The Opportunity Scholarships awarded in 2015 and 2014 and, to a lesser extent, other factors had the effect of reducing our Core Operations revenue per student by approximately 0.5% in 2015 compared to 2014.

Operations. Net cash flows from operating activities decreased \$60.1 million to \$76.7 million in the year ended December 31, 2015 compared to \$136.8 million in the year ended December 31, 2014. The decrease in net cash flows from operating activities was primarily due to lower net cash receipts due to lower total student enrollment, in the year ended December 31, 2015 compared to the year ended December 31, 2014.

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Accounts receivable less allowance for doubtful accounts was \$48.8 million as of December 31, 2015 compared to \$46.4 million as of December 31, 2014. Days sales outstanding increased 4.7 days to 22.2 days at December 31, 2015 compared to 17.5 days at December 31, 2014. Our accounts receivable balance and days sales outstanding at December 31, 2015 increased primarily due to the delay in the receipt of the Title IV funds following our implementation of additional procedures required by the ED in October 2015, which was partially offset by:

a decrease in internal student financing caused by the utilization of the Opportunity Scholarship by our students; and

a decrease in total student enrollment.

The amount of institutional scholarships and awards provided to our students decreased 16.1% to \$219.1 million in 2015 compared to \$261.2 million in 2014.

In the year ended December 31, 2014, net cash flows from operating activities increased \$59.1 million to \$136.8 million compared to \$77.7 million in the year ended December 31, 2013. The increase in net cash flows from operating activities was primarily due to the \$46.0 million payment that we made to settle the litigation and absolve us from any further obligations under the 2007 RSA in the year ended December 31, 2013 and lower income tax payments made during the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase was partially offset by a decrease in funds received as a result of lower student enrollments.

Investing. Capital expenditures, including expenditures for facility renovation, expansion and construction, totaled \$7.4 million in 2015, \$6.1 million in 2014 and \$5.2 million in 2013. These expenditures consisted primarily of classroom and laboratory equipment (such as computers and electronic equipment), classroom and office furniture, software and leasehold improvements.

We also spent:

\$5.2 million to acquire certain assets of Ascolta in the year ended December 31, 2014; and

\$7.2 million to acquire Cable Holdings in the year ended December 31, 2013.

See Note 3 Acquisitions of the Notes to Consolidated Financial Statements, for a more detailed discussion of the Ascolta acquisition.

Cash generated from operations is expected to be sufficient to fund our capital expenditure requirements.

Financing. On December 4, 2014, we and certain of our subsidiaries entered into the Financing Agreement. Under the Financing Agreement, we received an aggregate principal amount of \$100.0 million under the Term Loans. A portion of the proceeds of the Term Loans and other funds were used by us on December 4, 2014 to provide approximately \$89.2 million in cash collateral for letters of credit outstanding for our account, which was in addition to the approximately \$0.1 million of cash collateral we had previously provided related to a letter of credit in September 2014. We also used a portion of the proceeds of the Term Loans and other funds to repay all outstanding borrowings, plus accrued interest and fees, owed by us under the Amended Credit Agreement in the amount of

approximately \$50.4 million on December 4, 2014. A portion of the proceeds of the Term Loans, as well as other funds, were also used for payment of fees in connection with the Financing Agreement. For the year ended December 31, 2015, we made principal, interest and fee payments pursuant to the Financing Agreement in the aggregate amount of \$39.5 million.

On March 21, 2012, we entered into the Amended Credit Agreement that provided for a \$325.0 million senior revolving credit facility. A portion of the borrowings under the Amended Credit Agreement was used to prepay the entire outstanding indebtedness under a prior credit agreement which was terminated on March 21, 2012. In addition to the prepayment of the outstanding indebtedness under the prior credit agreement, borrowings under the Amended Credit Agreement were used for general corporate purposes. The commitments of the lenders under the Amended Credit Agreement to make revolving loans, issue or participate in new letters of credit and to amend, renew or extend letters of credit outstanding were terminated effective December 4, 2014.

See Note 12 Debt of the Notes to Consolidated Financial Statements, for additional information regarding the Financing Agreement and the Amended Credit Agreement.

In January 2010, the PEAKS Trust issued PEAKS Senior Debt in the aggregate principal amount of \$300.0 million to investors. The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase student loans from the lender. Beginning on February 28, 2013, we consolidated the PEAKS Trust in our consolidated financial statements. As a result, among other things, the PEAKS Senior Debt is recorded on our Consolidated Balance Sheets following that date. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Consolidation. See Note 12 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt.

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Beginning on September 30, 2014, we consolidated the CUSO in our consolidated financial statements. As a result, among other things, the CUSO Secured Borrowing Obligation is recorded on our Consolidated Balance Sheets following that date. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Consolidation.

We entered into the Waiver to the Financing Agreement, whereby the lenders and agents waive any default or event of default that may have occurred and is continuing, or may occur, under the Financing Agreement or related loan documents as a result of various matters related to, or in connection with, the Restatements. We also believe that if any breach of, or event of default under, the documents under the PEAKS Program or the CUSO Program had occurred as a result of us previously delivering reports that were inaccurate because of the error that was the subject of the Restatements, that our delivery of corrected reports has cured any such breach or event of default. Further, we have determined that the Restatements do not have the effect of altering our compliance with our financial metric covenants under the Financing Agreement, the PEAKS Program documents or the CUSO Program documents in the periods covered by the Restatements.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our CUSO RSA and PEAKS Guarantee payments, working capital, loan repayment, and capital expenditure requirements over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use to make payments under the CUSO RSA and PEAKS Guarantee or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. Our projections, however, are estimates, which are based on numerous assumptions and, therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties.

Student Financing Update. During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. As of June 30, 2013, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. We believe that the Opportunity Scholarship has and will continue to reduce our students' need and use of private education loans, as well as decrease the internal student financing that we provide to our students. As an institutional scholarship, our revenue is reduced by the amount of the Opportunity Scholarship awarded. In addition, no cash payments are received and students will not be obligated to make payments to us of the amounts awarded under the Opportunity Scholarship.

The internal student financing that we provide to our students consists of non-interest bearing, unsecured credit extended to our students and is included in Accounts receivable, net on our Consolidated Balance Sheets. The utilization of the Opportunity Scholarship has significantly decreased the need for us to provide internal student financing to our students.

We plan to continue offering the Opportunity Scholarship and other scholarships which we believe will continue to reduce the amount of internal student financing that we provide to our students. The increased use of institutional scholarships and awards by our students and any additional internal student financing provided to our students could result in a continuation of the adverse factors that are described above, including a material adverse effect on our financial condition and cash flows.

Contractual Obligations and Other Commercial Commitments

The following table sets forth the specified contractual obligations and other commitments as of December 31, 2015:

Contractual Obligations	Total	Payments Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
		(In thousands)			
Operating lease obligations	\$ 134,559	\$ 37,270	\$ 61,920	\$ 31,210	\$ 4,159
Term Loans ^(a)	74,532	74,532	0	0	0
PEAKS Senior Debt ^(b)	66,136	23,556	21,867	20,713	0
CUSO Secured Borrowing Obligation ^(c)	202,149	23,591	35,611	35,002	107,945
Total	\$ 477,376	\$ 158,949	\$ 119,398	\$ 86,925	\$ 112,104

- (a) The Term Loans are our borrowings under the Financing Agreement. The amounts shown consist of: (i) the required quarterly principal payment amounts and quarterly administrative fees; (ii) the required monthly interest payment amounts; and (iii) the anticipated payment of \$9.0 million under the Excess Cash Flow provision of the Financing Agreement in the first quarter of 2016. Interest payment amounts have been calculated based on their scheduled payment dates using the interest rate charged on our borrowings as of December 31, 2015. See Note 12 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the Financing Agreement and our payment obligations and estimates.
- (b) The PEAKS Senior Debt represents the senior debt issued by the PEAKS Trust. Beginning on February 28, 2013, the PEAKS Trust was consolidated in our consolidated financial statements, and the PEAKS Senior Debt was included on our Consolidated Balance Sheet as of December 31, 2015. There is no separate liability recorded on our Consolidated Balance Sheet as of December 31, 2015 for the PEAKS Guarantee, because this liability was eliminated upon the PEAKS Consolidation. We do, however, have significant payment obligations under the PEAKS Guarantee, as further discussed in Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements. The assets of the PEAKS Trust serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. The amounts shown in the above table represent our estimate of the total PEAKS Senior Debt interest and principal payments that may be made by the PEAKS Trust in the periods indicated. We estimated the interest due on the PEAKS Senior Debt in each of the periods based on our estimate of the outstanding balance of the PEAKS Senior Debt during those periods. Interest payments have been calculated using the

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interest rate charged on the PEAKS Senior Debt as of December 31, 2015. We estimated the amount of PEAKS Senior Debt principal payments in each of the periods based on an estimate of the excess cash flows generated by the PEAKS Trust. Cash flows generated by the PEAKS Trust in any month that exceed the amounts needed to pay various administrative fees and expenses and the interest due on the PEAKS Senior Debt for the month must be applied to reduce the outstanding balance on the PEAKS Senior Debt. We also considered whether any payments would be required to be made under the PEAKS Guarantee in order to maintain the required Asset/Liability Ratio. Payments made under the PEAKS Guarantee to maintain the required Asset/Liability Ratio reduce the amount of the outstanding PEAKS Senior Debt and have been included as principal payments in the above table. In order to estimate the PEAKS Senior Debt interest and principal payments shown above, we made certain assumptions regarding the timing and amount of the cash flows generated by the PEAKS Trust. The cash flows of the PEAKS Trust are dependent on the performance of the PEAKS Trust Student Loans and, therefore, are subject to change. See Note 8 Variable Interest Entities, Note 12 Debt and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt and PEAKS Guarantee.

- (c) The CUSO Secured Borrowing Obligation represents the estimated amount owed by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the CUSO RSA. Beginning on September 30, 2014, the CUSO was consolidated in our consolidated financial statements, and the CUSO Secured Borrowing Obligation was included on our Consolidated Balance Sheet as of December 31, 2015. There is no separate liability recorded on our Consolidated Balance Sheet as of December 31, 2015 for the CUSO RSA, because this liability was eliminated upon the CUSO Consolidation. The amounts shown in the table represent our estimate of the amount of the payments to be made to the CUSO Participants in the periods indicated. In order to estimate these payments, we made certain assumptions regarding the timing and amount of the repayment of the CUSO Student Loans and, therefore, are subject to change. See Note 8 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Secured Borrowing Obligation.

The table above does not reflect unrecognized tax benefits of \$27.6 million and accrued interest related to unrecognized tax benefits of \$6.6 million, because we cannot reasonably predict the timing of the resolution of the related tax positions. We may resolve certain federal and state income tax matters presently under examination within the 12 months immediately following the date of this filing. We believe it is reasonably possible that we could pay approximately \$8.1 million within the 12 months following December 31, 2015 to resolve certain income tax audits for which we have recorded an unrecognized tax benefit. See Note 13 Income Taxes of the Notes to Consolidated Financial Statements, for additional information on the unrecognized tax benefits as of December 31, 2015.

Off-Balance Sheet Arrangements

As of December 31, 2015, we leased our non-owned facilities under operating lease agreements. A majority of the operating leases contain renewal options that can be exercised after the initial lease term. Renewal options are generally for periods of one to five years. All operating leases will expire over the next eight years and management believes that:

those leases will be renewed or replaced by other leases in the normal course of business;

we may purchase the facilities represented by those leases; or

we may purchase or build other replacement facilities.

There are no material restrictions imposed by the lease agreements, and we have not entered into any significant guarantees related to the leases. We are required to make additional payments under the terms of certain operating leases for taxes, insurance and other operating expenses incurred during the operating lease period.

As part of our normal course of operations, one of our insurers issues surety bonds for us that are required by various education authorities that regulate us. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of December 31, 2015, the total face amount of those surety bonds was approximately \$23.0 million.

We caused the ED Letter of Credit in the amount of \$79.7 million to be issued on October 31, 2014. As of December 31, 2014, the amount of the outstanding letters of credit that we caused to be issued to the ED, our workers compensation insurers and one of our state regulatory agencies was \$82.1 million. Pursuant to the Amended Credit Agreement, we were required to provide cash collateral in an amount equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit. As of December 31, 2014, approximately \$89.3 million of cash was maintained in a restricted bank account to satisfy those cash collateral requirements. This amount is included in the line item Collateral deposits on our Consolidated Balance Sheet as of December 31, 2014. See Note 12 Debt and Note 15 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the ED Letter of Credit.

In December 2015, we replaced the ED Letter of Credit and the letter of credit to our workers compensation insurer with escrowed funds and cash collateral. As of December 31, 2015, the amount of the escrowed funds and cash collateral that we provided to the ED and our workers compensation insurer was \$81.9 million. This amount is included in the line item Collateral deposits on our Consolidated Balance Sheet as of December 31, 2015.

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Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our consolidated financial statements. These policies should be read in conjunction with Note 1 Business and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

Recognition of Revenue. Tuition revenue is recorded on a straight-line basis over the length of the applicable course to the extent that we consider the collectability of that revenue to be reasonably assured. If a student withdraws from an institution, the standards of most SAs that regulate our institutions, the ACs and our own internal policy limit a student's obligation for tuition and fees to the institution depending on when a student withdraws during an academic term. The terms of the Refund Policies vary by state, and the limitations imposed by the Refund Policies are generally based on the portion of the academic term that has elapsed at the time the student withdraws. Generally, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student's obligation is to the institution for the tuition and fees related to that academic term. We record revenue net of any refunds that result from any applicable Refund Policy. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as deferred revenue.

We do not charge a separate fee for textbooks and certain equipment that students use in their education programs. We record the cost of these textbooks and equipment in prepaid expenses and other current assets and amortize the cost on a straight-line basis over the applicable course length. Tool kit sales, and the related cost, are recognized when the student receives the tool kit. Academic fees (which are charged only one time to students on their first day of class attendance) are recognized as revenue on a straight-line basis over the average education program length. If a student withdraws from an institution, all unrecognized revenue relating to his or her fees, net of any refunds that result from any applicable Refund Policy, is recognized upon the student's departure. An administrative fee is charged to a student and recognized as revenue when the student withdraws or graduates from an education program at an institution. We reassess the collectability of tuition revenue on a student-by-student basis throughout our revenue recognition period. We reassess the collectability of tuition revenue that we may earn based on new information and changes in the facts and circumstances relevant to a student's ability to pay, which primarily include when a student withdraws from a program of study.

We derived approximately 97% of our revenue from tuition and approximately 3% from tool kit sales and student fees in each of the years ended December 31, 2015 and December 31, 2014 and approximately 98% from tuition and approximately 2% from tool kit sales and student fees in the year ended December 31, 2013. The amount of tuition earned depends on:

the cost per credit hour of the courses in our education programs;

the length of a student's enrollment;

the number of courses a student takes during each period of enrollment; and

the total number of students enrolled in our education programs.

Each of these factors is known at the time our tuition revenue is calculated.

Since the academic quarter that began in March 2013, we have significantly increased the amount of institutional scholarships and awards that we offer to our institutions' students and which those students use to help reduce their educational expenses. Institutional scholarships and awards reduce the students' tuition charges and are recorded as offsets to revenue. In the year ended December 31, 2015, institutional scholarships and awards amounted to, in aggregate, approximately \$219.1 million, compared to approximately \$261.2 million in the year ended December 31, 2014.

Interest income on the Private Education Loans, which is the accretion of the accretable yield on the Private Education Loans, is included in revenue in our Consolidated Statements of Operations and recognized based on the effective interest method, as described in Note 9 Private Education Loans of the Notes to Consolidated Financial Statements.

Equity-Based Compensation. In accordance with ASC 718, Compensation - Stock Compensation (ASC 718), the value of our equity instruments exchanged for employee and director services is measured at the date of grant, based on the calculated fair value of the grant, and is recognized as an expense over the period of time that the grantee must provide services to us before the stock-based compensation is fully vested. The vesting period is generally the period set forth in the agreement granting the stock-based compensation. Under the terms of our stock-based compensation plans, some grants immediately vest in full when the grantee's employment or service terminates for death or disability. As a result, in certain circumstances, the period of time that the grantee provides services to us in order for that stock-based compensation to fully vest may be less than the vesting period set forth in the agreement granting the stock-based compensation. In these instances, compensation expense will be recognized over this shorter period. We recognize stock-based compensation expense on a straight-line basis over the service period applicable to the grantee.

We use a binomial option pricing model to determine the fair value of stock options granted, and we use the market price of our common stock to determine the fair value of restricted stock units (RSUs) granted. Various assumptions are used in the binomial option pricing model to determine the fair value of the stock options. These assumptions are discussed in Note 1 Business and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

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The following table sets forth the stock-based compensation expense, including its components, and related income tax benefit recognized in our Consolidated Statements of Operations in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cost of education services	\$ 3,075	\$ 4,790	\$ 4,799
Student services and administrative expense	2,711	5,546	6,839
Total stock-based compensation expense	\$ 5,786	\$ 10,336	\$ 11,638
Income tax (benefit)	(2,227)	(3,980)	(4,481)
	\$ 3,559	\$ 6,356	\$ 7,157

As of December 31, 2015, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately \$3.8 million, net of estimated forfeitures, will be recognized in future periods. We expect to recognize this expense over the remaining service period applicable to the grantees which, on a weighted average basis, is approximately 1.1 years.

See also Note 1 Business and Significant Accounting Policies and Note 6 Equity Compensation Plans of the Notes to Consolidated Financial Statements, for a discussion of stock-based compensation.

Income Taxes. We follow ASC 740, Income Taxes (ASC 740), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This guidance requires us to evaluate whether it is more likely than not, based on the technical merits of a tax position, that the benefits resulting from the position will be realized by us.

Accounts Receivable and Allowance for Doubtful Accounts. We extend unsecured credit to our institutions' students for tuition and fees, and we record a receivable for the tuition and fees earned in excess of the payment received from or on behalf of a student. The individual student balances of these receivables are insignificant. We record an allowance for doubtful accounts with respect to accounts receivable based on our historical collection experience. If our collection trends were to differ significantly from our historical collection experience, we would make a corresponding adjustment to our allowance for doubtful accounts.

When a student is no longer enrolled in an education program at one of our campuses, we increase the allowance for doubtful accounts related to the former student's receivable balance to reflect the amount we estimate will not be collected. The amount that we estimate will not be collected is based on a review of the historical collection experience for each campus, adjusted as needed to reflect other facts and circumstances. We review the collection activity after a student withdraws or graduates from an education program and will write off the accounts receivable, if we conclude that collection of the balance is not probable.

Private Education Loans. We consolidate two VIEs that purchased, own and collect private education loans made to our students in our consolidated financial statements. Beginning on February 28, 2013, we consolidated the PEAKS Trust in our consolidated financial statements, and beginning on September 30, 2014, we consolidated the CUSO in our consolidated financial statements.

Certain of the Private Education Loans had evidence of credit deterioration since the date those loans were originated and, therefore, we determined that, at the date of the PEAKS Consolidation and the CUSO Consolidation, it was probable that all contractually required payments under the applicable loans would not be collected. We recorded those loans at fair value at the date of the PEAKS Consolidation and the CUSO Consolidation, as applicable. We also recorded at fair value the Private Education Loans that did not individually have evidence of deteriorated credit quality at the date of the PEAKS Consolidation and the CUSO Consolidation, because we determined that the application of an expected cash flow model provided the most reasonable presentation and this accounting treatment was consistent with the American Institute of Certified Public Accountants (the AICPA) December 18, 2009 Confirmation Letter (the Confirmation Letter). No allowance for loan losses was recorded at the date of the PEAKS Consolidation or the CUSO Consolidation, because all of the Private Education Loans were recorded at fair value and future credit losses are considered in the estimate of fair value. Cash flows from the Private Education Loans expected to be collected within the 12 month period after December 31, 2015 have been classified as current on our Consolidated Balance Sheet. The remaining balance is classified as non-current.

As of the date of the applicable Consolidation, we aggregated the PEAKS Trust Student Loans into 24 separate pools of loans and the CUSO Student Loans into 48 separate pools of loans, based on common risk characteristics of the loans, which included:

the fiscal quarter in which the Private Education Loan was purchased by the PEAKS Trust or the CUSO; and

the consumer credit score of the borrower.

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Loans that did not have evidence of deteriorated credit quality were not aggregated in the same pools with loans that had evidence of deteriorated credit quality. The same aggregation criteria, however, were used to determine those loan pools. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

On a quarterly basis subsequent to the PEAKS Consolidation and the CUSO Consolidation, as applicable, we estimate the total principal and interest expected to be collected over the remaining life of each loan pool. These estimates include assumptions regarding default rates, forbearances and other factors that reflect then-current market conditions. Prepayments of loans were not considered when estimating the expected cash flows, because, historically, few Private Education Loans have been prepaid.

If a decrease in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be less than the expected cash flows at the end of the previous fiscal quarter, we would record the impairment as:

a provision for private education loan losses in our Consolidated Statement of Operations; and

an increase in the allowance for loan losses on our Consolidated Balance Sheets.

The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period, offset by recoveries received from private education loans that were charged off prior to the PEAKS Consolidation and CUSO Consolidation. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool, discounted by the loan pool's effective interest rate at the end of the previous fiscal quarter. If a significant increase in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be greater than the expected cash flows at the end of the previous fiscal quarter, we would:

first reverse any allowance for loan losses with respect to that loan pool that was previously recorded on our Consolidated Balance Sheet, up to the amount of that allowance; and

record any remaining increase prospectively as a yield adjustment over the remaining estimated lives of the loans in the loan pool.

The impact of prepayments, changes in variable interest rates and any other changes in the timing of the expected cash flows of a loan pool are recognized prospectively as adjustments to interest income.

The impact of modifications made to loans in a loan pool is incorporated into our quarterly assessment of whether a significant change in the expected cash flows of the loan pool is probable or has occurred. We consider the historical loss experience associated with the Private Education Loans in estimating the future probabilities of default for all of the outstanding Private Education Loans.

The excess of any cash flows expected to be collected with respect to a loan pool of the Private Education Loans over the carrying value of the loan pool is referred to as the accretable yield. The accretable yield is not reported on our Consolidated Balance Sheets, but it is accreted and included as interest income at a level rate of return over the remaining estimated life of the loan pool. If we determine that the timing and/or amounts of expected cash flows with

respect to a loan pool are not reasonably estimable, no interest income would be accreted and the loans in that loan pool would be reported as nonaccrual loans. We recognize the accretable yield of the Private Education Loans as interest income, because the timing and the amounts of the expected cash flows are reasonably estimable.

If a Private Education Loan is paid in full or charged-off, that loan is removed from the loan pool. If the amount of the proceeds received for that loan, if any, is less than the unpaid principal balance of the loan, the difference is first applied against the loan pool's nonaccretable difference for principal losses (i.e., the lifetime credit loss estimate established at the date of the related Consolidation). If the nonaccretable difference for principal losses with respect to a loan pool has been fully depleted, any unpaid loan principal balance in excess of the proceeds received for the loan is charged-off against the loan pool's allowance for loan losses. We do not recognize charge-offs of individual Private Education Loans when those loans reach certain stages of delinquency, because those loans are accounted for at a loan pool level.

If any portion of a Private Education Loan that had previously been charged-off is recovered, the amount collected increases the applicable loan pool's nonaccretable difference. If the nonaccretable difference with respect to the applicable loan pool has been fully depleted, the amount collected increases that loan pool's allowance for loan losses. If amounts are recovered from Private Education Loans that were not recognized on our Consolidated Balance Sheet at the time of the PEAKS Consolidation or CUSO Consolidation (because it was estimated that they had no value), we recognize the amount of these recoveries in our Consolidated Statements of Operations as a reduction to the provision for loan losses.

Fair Value. ASC 820, Fair Value Measurements (ASC 820), defines fair value for financial reporting as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under ASC 820. Observable inputs are assumptions based on independent market data sources.

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The following table sets forth information regarding the recurring fair value measurement of our financial assets as of December 31, 2015:

Description	Fair Value Measurements at Reporting Date Using			
	As of December 31, 2015	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Cash equivalents:				
Money market fund	\$ 130,821	\$ 130,821	\$ 0	\$ 0
Restricted cash:				
Money market fund	585	585	0	0
Collateral deposits:				
Money market fund	8,631	8,631	0	0
	\$ 140,037	\$ 140,037	\$ 0	\$ 0

We used quoted prices in active markets for identical assets as of the measurement date to value our financial assets that were categorized as Level 1.

Property and Equipment. We include all property and equipment in the financial statements at cost and make provisions for depreciation of property and equipment using the straight-line method. The following table sets forth the general ranges of the estimated useful lives of our property and equipment:

Type of Property and Equipment	Estimated Useful Life
Furniture and equipment	3 to 10 years
Leasehold, building and land improvements	3 to 14 years
Buildings	20 to 40 years

Changes in circumstances, such as changes in our curricula and technological advances, may result in the actual useful lives of our property and equipment differing from our estimates. We regularly review and evaluate the estimated useful lives of our property and equipment. Although we believe that our assumptions and estimates are reasonable, deviations from our assumptions and estimates could produce a materially different result.

Long-Lived Assets. We regularly review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. If we determine that the carrying value of the long-lived asset exceeds its fair market value, we recognize an impairment loss equal to the difference. We base our impairment analyses of long-lived assets on our current business strategy, expected growth rates and estimates of future economic and regulatory conditions. We evaluate each note receivable individually for impairment.

Goodwill and Other Indefinite-Lived Intangible Assets. Goodwill and certain other intangible assets (primarily our trademarks) are not amortized, because there are no legal, regulatory, contractual, economic or other factors that limit the useful life of those intangible assets. Intangible assets that are not amortized (indefinite-lived intangible assets) are subject to evaluation for impairment. We perform this evaluation annually, during the fourth quarter, or more frequently if facts and circumstances warrant. These facts and circumstances may include a significant long-term decrease in our market capitalization based on events specific to our operations, as well as deteriorating operating results and current period and projected future operating results that negatively differ from the operating plans used in the most recent impairment analysis. We also consider changes in the accreditation, regulatory or legal environment, increased competition; innovation changes and changes in the market acceptance of our educational programs and the graduates of those programs, among other factors, when determining whether an interim impairment analysis is warranted.

We assess whether goodwill or other indefinite-lived intangible assets may be impaired by determining the estimated fair value of the reporting unit and comparing that value to the carrying value of the reporting unit. If the carrying value of the reporting unit

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exceeds the estimated fair value of the reporting unit, we allocate the estimated fair value of the reporting unit to the assets (including intangible assets) and liabilities of the reporting unit, with the residual representing the implied fair value of goodwill. We recognize an impairment loss if, and to the extent that, the carrying value of the goodwill or other indefinite-lived intangible asset exceeds its estimated fair value.

Contingent Liabilities. We are subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, guarantee obligations and employee-related matters, among others. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs associated with the claim or potential claim. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount involved is material.

Prior to the CUSO Consolidation, we determined the amount of our contingent liability for our guarantee obligations related to the CUSO Program by estimating the expected payments to be made by us under the guarantee and the amount that we expected to be repaid to us. We also considered the payment options available to us. To the extent that we projected that we would have sufficient funds available to pay the full amount of the outstanding balance of those private education loans that have been charged off at the time that they default to satisfy our guarantee obligations, we incorporated that assumption into our estimate of the contingent liability. If we did not believe that we would have sufficient funds available, we assumed that we would make monthly payments to satisfy our guarantee obligations related to the CUSO Program. We discounted the amount of those expected future monthly payments at a risk-free rate of interest. Making payments for the full amount of the charged-off loans at the time that they default results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligations in future periods and, therefore, results in an estimated contingent liability that is less than if we had assumed we would make monthly payments in the future.

The difference between the amount of the guarantee payments that we expected to make and the amount that we expected would be repaid to us, each discounted at a risk-free rate of interest, as applicable, was included in our estimate of the amount of our contingent liability related to our guarantee obligations under the CUSO Program prior to the date of the CUSO Consolidation. Beginning on September 30, 2014, we no longer record a contingent liability related to the CUSO Program on our Consolidated Balance Sheet because the contingent liability was eliminated upon the CUSO Consolidation.

PEAKS Senior Debt. In accordance with ASC 810, we included the PEAKS Senior Debt on our Consolidated Balance Sheet at its fair value as of February 28, 2013, the date of the PEAKS Consolidation. The difference between the fair value of the PEAKS Senior Debt and its outstanding aggregate principal balance at the date of the PEAKS Consolidation was recorded as an accrued discount on our Consolidated Balance Sheet at the date of the PEAKS Consolidation. The accrued discount is being recognized in interest expense using the interest method based on the actual and projected cash flows, over the expected life of the PEAKS Senior Debt.

CUSO Secured Borrowing Obligation. The CUSO Participants purchased participation interests in the CUSO Student Loans from the CUSO. The terms of the agreements between the CUSO Participants and the CUSO did not meet the requirements under ASC 860, Transfers and Servicing (ASC 860), to be considered a sale. As a result, the CUSO was required to record a liability (the CUSO Secured Borrowing Obligation) on its balance sheet for the cash received from the CUSO Participants. The CUSO Secured Borrowing Obligation represents the estimated amount that the CUSO owes to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the CUSO RSA.

In accordance with ASC 810, we included the CUSO Secured Borrowing Obligation on our Consolidated Balance Sheet at its fair value as of September 30, 2014, the date of the CUSO Consolidation. The difference between the estimated fair value of the CUSO Secured Borrowing Obligation and the amount expected to be paid by the CUSO to the CUSO Participants was recorded as an accrued discount on our Consolidated Balance Sheet at the date of the CUSO Consolidation. The accrued discount is being recognized in interest expense, using the interest method based on the actual and projected cash flows, over the expected life of the CUSO Secured Borrowing Obligation.

The expected life of the CUSO Secured Borrowing Obligation is an estimate of the period of time over which payments are expected to be made by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans. The period of time over which payments are expected to be made by the CUSO to the CUSO Participants is based on when the CUSO Student Loans enter a repayment status and the period of time they remain in a repayment status. Since all of the CUSO Student Loans have not entered repayment, and those loans that have entered repayment may be granted forbearances or deferments, the period of time over which payments are expected to be made to the CUSO Participants is an estimate. The assumptions used to estimate the expected life of the CUSO Secured Borrowing Obligation are reviewed periodically and updated accordingly, which may result in an adjustment to the expected life of the CUSO Secured Borrowing Obligation and the related recognized interest expense.

New Accounting Guidance

For a discussion of applicable new accounting guidance, see Note 2 New Accounting Guidance of the Notes to Consolidated Financial Statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of our business, we are subject to fluctuations in interest rates that could impact the cost of our financing activities and guarantee obligations. Our primary interest rate risk exposure results from changes in short-term interest rates, the LIBOR and the U.S. prime rate.

Changes in the LIBOR would affect the borrowing costs associated with the Financing Agreement and the PEAKS Senior Debt. Changes in the U.S. prime rate would affect the interest cost of the Private Education Loans. We estimate that the market risk can best be measured by a hypothetical 100 basis point increase in the LIBOR or U.S. prime rate. If such a hypothetical increase in the LIBOR or U.S. prime rate were to occur, the effect on our results from operations and cash flows would not have been material for the year ended December 31, 2015.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item appears on pages F-1 through F-68 of this Annual Report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures (DCP) that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act is: (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (b) accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosures. In designing and evaluating our DCP, we recognize that any controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving the desired control objectives.

We conducted an evaluation pursuant to Rule 13a-15 of the Exchange Act of the effectiveness of the design and operation of our DCP as of December 31, 2015. This evaluation was conducted under the supervision (and with the participation) of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our DCP were not effective at the reasonable assurance level as of December 31, 2015, because of a material weakness (the Material Weakness) in our ICFR described in Management's Report on Internal Control Over Financial Reporting included in this filing. Notwithstanding the Material Weakness, our management, based on the substantial work performed, concluded that our consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with GAAP for each of the periods presented in this Annual Report on Form 10-K.

2014 and 2015 Material Weaknesses

We disclosed in Management's Report on Internal Control Over Financial Reporting of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014, that there were three material weaknesses in our ICFR as of December 31, 2014 (the 2014 Material Weaknesses). Specifically, we did not maintain effective internal controls related to:

the assessment of the completeness and accuracy of the data obtained from third parties related to the private education loans that are owned by variable interest entities that we were required to consolidate;

the aggregation of design and operating effectiveness control deficiencies related to property and equipment, including logical access controls related to information systems relevant to property and equipment, the design of controls over the impairment of long-lived assets and the design and operation of review controls over accounting for leasehold improvements, which lead to individually immaterial adjustments; and

the aggregation of control deficiencies relating to design and operation of review controls over the financial close and reporting and income tax reporting processes, which lead to individually immaterial adjustments. We committed to remediating the control deficiencies that constituted the 2014 Material Weaknesses by implementing changes to our ICFR. In 2015, we implemented measures designed to remediate the underlying causes of the control deficiencies that gave rise to the 2014 Material Weaknesses, including, without limitation:

engaging a third-party consultant to assist us in our review and testing of the private education loan data that we receive from the servicer;

separating responsibilities related to information system access;

enhancing the level of the precision of the review controls related to our financial close and reporting and income tax processes; and

engaging supplemental internal and external resources.

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Our management concluded that, as of December 31, 2015, the remedial measures were sufficient to remediate two of the three 2014 Material Weaknesses. While measures were implemented in an effort to remediate the third deficiency from the 2014 Material Weaknesses regarding the review controls over our financial close and reporting process, it was determined that the review controls related to our financial close and reporting process over the PEAKS Senior Debt balances reported in the consolidated financial statements were deficient as of December 31, 2015. The remediation measures that were implemented in the fourth quarter of 2015 did identify an error in the PEAKS Senior Debt balance, which led to the Restatements of previously reported financial statements, as described elsewhere in this Annual Report on Form 10-K. However, the process related to the investigation and resolution of the identified issue was considered to be deficient. As a result, our management concluded that a material weakness in our ICFR existed as of December 31, 2015 related to a deficiency in the design and operation of a review control over the financial close and reporting process specific to the PEAKS Senior Debt balances reported in the financial statements, including:

appropriate reconciliation of the reported amounts and related amortization of the discount recorded against the PEAKS Senior Debt balance; and

adequacy of the depth, sufficiency and number of resources with the technical expertise available in our accounting and finance group to appropriately identify, research, analyze and conclude upon the accounting treatment.

Because certain corrective actions specific to this deficiency have not been fully implemented as of the date of this report, the deficiency was not considered remediated as of December 31, 2015.

Management's Plan for Remediation

Our management and Board of Directors are committed to the remediation of the Material Weakness, as well as the continued improvement of our overall system of ICFR. We are in the process of implementing measures to remediate the underlying causes of the control deficiency that gave rise to the Material Weakness, which primarily include engaging additional and supplemental internal and external resources.

We believe these measures will remediate the control deficiency. While we have completed some of these measures as of the date of this report, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary to determine whether the Material Weakness has been remediated. Therefore, the Material Weakness has not been remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiency that gave rise to the Material Weakness, we may determine that additional measures are required to address the control deficiency.

We are committed to maintaining a strong internal control environment, and believe that these remediation actions will represent improvements in our ICFR when they are fully implemented. Certain remediation steps, however, have not been implemented or have not had sufficient time to be fully integrated in the operations of our ICFR. As a result, the identified Material Weakness will not be considered remediated until controls have been designed and/or controls are in operation for a sufficient period of time for our management to conclude that the control environment is operating effectively. Additional remediation measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our ICFR and DCP.

As we continue to evaluate and work to remediate the Material Weakness and enhance our ICFR and DCP, we may determine that we need to modify or otherwise adjust the remediation measures described above. As a result, we cannot assure you that our remediation efforts will be successful or that our ICFR or DCP will be effective as a result of those efforts.

Changes in Internal Control Over Financial Reporting

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 and concluded that, except for enhancing the level of precision of certain of our controls related to our financial close and reporting and income tax reporting processes, there were no changes in our ICFR that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Management's Annual Report on Internal Control over Financial Reporting. Our management's report on internal control over financial reporting appears on page F-1 of this Annual Report and is incorporated herein by reference.

The effectiveness of our ICFR as of December 31, 2015 has been audited by Deloitte & Touche LLP (Deloitte), our independent registered public accounting firm, based on the criteria established in the *Internal Control Integrated Framework* (2013) issued by The Committee of Sponsoring Organizations of the Treadway Commission, as stated in its report dated March 14, 2016, which appears beginning on page F-3 of this Annual Report and is incorporated herein by reference.

Item 9B. Other Information.

On March 12, 2016, we and John E. Dean, our Executive Chairman, entered into an Amendment No. 1 to the John E. Dean Letter Agreement, pursuant to which the Letter Agreement, dated August 4, 2014, between us and Mr. Dean is amended to change Mr. Dean's annual base salary from \$575,000 to \$200,000.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The information required by this Item concerning our audit committee members and financial expert, code of ethics and disclosure of delinquent Section 16 filers is incorporated herein by reference to our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

The following is the biographical information with respect to our directors and our executive officers as of March 1, 2016. Unless otherwise specified, the occupation of each individual has been the same for the past five years.

C. David Brown II, age 64, has been Chairman of Broad and Cassel, a law firm based in Florida, since March 2000. From 1989 until March 2000, he was Managing Partner of the Orlando office of the firm. Mr. Brown joined the firm in 1980. Mr. Brown is the immediate past Chairman of the Board of Trustees for the University of Florida. Mr. Brown is also a member of the board of directors of CVS Health Corporation, Rayonier Advanced Materials Inc., a leading specialty cellulose production company, and Orlando Health, a major health care provider serving Florida. During the past five years, he was also a director of Rayonier, Inc. Mr. Brown has been a director of ours since April 2015.

Jerry M. Cohen, age 64, retired as a senior partner of Deloitte in June 2014. Mr. Cohen joined Deloitte in 1973, and served for over 40 years with that firm, providing business advisory and audit services to a wide range of global organizations, including small, mid and large cap multinational public companies. Mr. Cohen worked with corporate boards of directors to develop, enhance and support corporate strategy and functioned as an advisor to senior executives and members of boards of directors. During his career, Mr. Cohen also served in a wide variety of strategic and leadership roles at Deloitte, including: managing partner, Philadelphia office; member of the Mid-Atlantic Executive Committee; regional managing partner Assurance and Advisory Operations, Midwest; member of the Assurance and Advisory Management Committee; and member of the Assurance and Advisory Partner Evaluation and Compensation Committee. Mr. Cohen has been a Director of ours since September 2014.

John F. Cozzi, age 54, has served as a partner of AEA Investors LP, a private equity firm, since January 2004. Mr. Cozzi has been a Director of ours since October 2003.

John E. Dean, age 65, has served as our Executive Chairman since August 4, 2014. Mr. Dean is an attorney who has specialized in higher education law since April 1985. Mr. Dean has served as a principal of Washington Partners, LLC, a public affairs firm, since June 2002. Mr. Dean also was a partner at the Law Offices of John E. Dean from June 2005 through December 2015. Mr. Dean has been a Director of ours since December 1994.

Joanna T. Lau, age 57, has served as chairperson and chief executive officer of Lau Acquisition Corporation (doing business as LAU Technologies), a management consulting and investment firm, since March 1990. She is also a director of DSW Inc. Ms. Lau has been a Director of ours since October 2003.

Thomas I. Morgan, age 62, served as chairman of Baker & Taylor, Inc. (B&T), a distributor of physical and digital books, entertainment products and value-added services, from July 2008 until January 2014. He served as chief executive officer of B&T from July 2008 through January 2013. Prior to that, Mr. Morgan served as chief executive officer of Hughes Supply, Inc., a diversified wholesale distributor of construction, repair and maintenance-related

products, from May 2003 until his retirement in March 2006. Mr. Morgan is also a director of Rayonier Advanced Materials, Inc. and Tech Data Corporation. During the past five years, Mr. Morgan was also a director of Rayonier, Inc. Mr. Morgan previously served as a Director of ours from May 2006 to June 2008, and currently has served as a Director of ours since January 2013.

Samuel L. Odle, age 66, has been a senior policy advisor for Bose Public Affairs Group, a public affairs consulting firm, since October 2012. He has also acted as a consultant, primarily in the healthcare and life sciences fields, since July 2012. Prior to that, he served as president and chief executive officer of Methodist Hospital (MH) and Indiana University Hospital (IUH) and executive vice president of Indiana University Health (formerly Clarian Health Partners) (IU Health), an Indianapolis-based private, non-profit healthcare organization comprised of MH, IUH and Riley Hospital for Children, since July 2004. Mr. Odle has been a Director of ours since January 2006.

Vin Weber, age 63, has served as co-chairman and partner of Mercury Public Affairs LLC (doing business as Mercury), a public affairs and lobbying firm, since October 2011. Mr. Weber was a partner at Clark & Weinstock Inc. (C&W) from 1994 until October 2011 and was the chief executive officer of C&W from 2007 until October 2011. During the past five years, he was also a director of Lenox Group, Inc. Mr. Weber has been a Director of ours since December 1994.

Kevin M. Modany, age 49, has served as our Chief Executive Officer since April 2007. Mr. Modany served as a Director of ours from July 2006 until August 2014 and as our Chairman from February 2008 until August 2014. He also served as our President from April 2005 through March 2009.

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Eugene W. Feichtner, age 60, has served as our President and Chief Operating Officer since August 2014. Mr. Feichtner served as an Executive Vice President and as President, ITT Technical Institute Division from April 2009 until August 2014. He served as our Senior Vice President, Operations from March 2004 through March 2009.

Angela K. Knowlton, age 53, has served as our Senior Vice President, Controllor and Treasurer since March 2010 and was designated as our principal accounting officer in November 2014. She served as our Vice President, Controllor and Treasurer from February 2006 to March 2010.

June M. McCormack, age 67, has served as an Executive Vice President since April 2009 and as our President, Online Division since May 2008. Ms. McCormack also served as our Interim Chief Information Officer from May 2012 through November 2012 and from June 2013 through September 2013.

Ryan L. Roney, age 43 has served as our Executive Vice President, Chief Administrative and Legal Officer and Secretary since July 2014. Mr. Roney served as the chief legal officer, executive vice president of business development and corporate secretary of Vistage International, Inc., a chief executive membership organization, from December 2012 until July 2014. Prior to that, he served as the chief ethics and compliance officer of Powerwave Technologies, Inc., a global supplier of end-to-end wireless solutions for wireless communications networks from June 2011 until November 2012. From October 2000 until March 2011, Mr. Roney served in various roles with Smiths Group, PLC, most recently as general counsel of Smiths Detection, a provider of regulated technology products and advanced services from August 2002 through March 2011.

Glenn E. Tanner, age 68, has served as our Executive Vice President, Chief Marketing Officer since April 2009. He served as our Senior Vice President, Marketing from April 2007 through March 2009.

Rocco F. Tarasi, III, age 44, has served as our Executive Vice President, Chief Financial Officer since January 25, 2016 and prior to that, as our interim Chief Financial Officer beginning August 1, 2015. He served as Senior Vice President, President The Center for Professional Development from January 2013 until August 2015. He served as our Vice President, Finance Corporate Strategy and Development from October 2011 through January 2013. Mr. Tarasi was the co-founder of BrainCredits Corporation, an education start-up, from August 2010 through October 2011, and served as managing director, policyIQ for Resources Global Professionals, a multinational professional services firm, from July 2003 through August 2010.

Item 11. Executive Compensation.

The information required of this Item concerning remuneration of our executive officers and directors, material transactions involving such executive officers and directors and Compensation Committee interlocks, as well as the Compensation Committee Report, are incorporated herein by reference to our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item concerning the stock ownership of management, five percent beneficial owners and securities authorized for issuance under equity compensation plans is incorporated herein by reference to our

definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item concerning certain relationships and related person transactions, and director independence is incorporated herein by reference to our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 14. Principal Accountant Fees and Services.

The information required by this Item concerning the fees and services of our independent registered public accounting firm and our Audit Committee actions with respect thereto is incorporated herein by reference to our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Table of Contents**PART IV****Item 15. Exhibits and Financial Statement Schedules.**

1. Financial Statements:

	Page No. In This Filing
<u>Management's Report on Internal Control Over Financial Reporting</u>	F-1
<u>Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm</u>	F-2
<u>Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm</u>	F-3
<u>Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm</u>	F-5
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	F-6
<u>Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013</u>	F-7
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014 and 2013</u>	F-8
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013</u>	F-9
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013</u>	F-10
<u>Notes to Consolidated Financial Statements</u>	F-11

2. Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts of the Company for the years ended December 31, 2015, 2014 and 2013 appear on page F-66 of this Annual Report.

3. Quarterly Financial Results for 2015 and 2014 (unaudited) appear on page F-67 of this Annual Report.

4. Exhibits:

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits appearing on pages S-2 through S-11 of this Annual Report, which immediately precedes such exhibits, and is incorporated herein by reference.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act (ICFR). Our ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of our records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;

provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;

provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors (as appropriate); and

provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Reasonable assurance, as defined in Section 13(b)(7) of the Exchange Act, is the level of detail and degree of assurance that would satisfy prudent officials in the conduct of their own affairs in devising and maintaining a system of internal accounting controls.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our ICFR as of December 31, 2015. Our assessment included extensive documenting, evaluating and testing of the design and operating effectiveness of our ICFR. In making this assessment, our management used the criteria for the *Internal Control-Integrated Framework (2013)* set forth by The Committee of Sponsoring Organizations of the Treadway Commission. These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. Based on our assessment using these criteria, our management has identified a control deficiency that constituted a material weakness in our ICFR as of December 31, 2015, as described below. A material weakness is a deficiency, or a combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Our management has concluded that there was a deficiency in the design and operation of a review control over the financial close and reporting process specific to the PEAKS Senior Debt balances reported in the financial statements, including:

appropriate reconciliation of the reported amounts and related amortization of the discount recorded against the PEAKS Senior Debt balance; and

adequacy of the depth, sufficiency and number of resources with the technical expertise available in our accounting and finance group to appropriately identify, research, analyze and conclude upon the accounting treatment.

Our management determined this control deficiency could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. As a result, our management determined that this deficiency constituted a material weakness in our ICFR as of December 31, 2015, and our ICFR was not effective as of that date.

The effectiveness of our ICFR as of December 31, 2015 has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in its accompanying report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ITT Educational Services, Inc.

Carmel, Indiana

We have audited the accompanying consolidated balance sheets of ITT Educational Services, Inc. and subsidiaries (the Company) as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders' equity for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITT Educational Services, Inc. and subsidiaries as of December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 16 to the consolidated financial statements, the Company is subject to risks and uncertainties including claims and contingencies arising from litigation and governmental investigations and increasing liquidity pressures that could affect amounts reported in the Company's financial statements in future periods.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2016 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche LLP

Indianapolis, Indiana

March 14, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ITT Educational Services, Inc.

Carmel, Indiana

We have audited the internal control over financial reporting of ITT Educational Services, Inc. and subsidiaries (the Company) as of December 31, 2015 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment:

A deficiency in the design and operation of a review control over the financial close and reporting process specific to the PEAKS Trust Senior Debt balances reported in the financial statements, including:

Appropriate reconciliation of the reported amounts and related amortization of the discount recorded against the PEAKS Trust Senior Debt balance,

Adequacy of the depth, sufficiency and number of resources with the technical expertise available in the Company's accounting and finance group to appropriately identify, research, analyze and conclude upon the accounting treatment.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015, of the Company and our report dated March 14, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule

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and included an explanatory paragraph regarding risks and uncertainties including claims and contingencies arising from litigation and governmental investigations and increasing liquidity pressures that could affect amounts reported in the Company's financial statements in future periods.

/s/ Deloitte & Touche LLP

Indianapolis, Indiana

March 14, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

ITT Educational Services, Inc.

In our opinion, the consolidated statements of operations, comprehensive income (loss), cash flows and shareholders equity for the year ended December 31, 2013 present fairly, in all material respects, the results of operations and cash flows of ITT Educational Services, Inc. and its subsidiaries for the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended December 31, 2013 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 16 to the consolidated financial statements, the Company is subject to risks and uncertainties including litigation, governmental investigations and increasing liquidity pressures that could affect amounts reported in the Company's financial statements in future periods.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Indianapolis, Indiana

October 15, 2014

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	As of December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 130,897	\$ 135,937
Restricted cash	6,015	6,040
Accounts receivable, less allowance for doubtful accounts of \$268 and \$2,351	48,837	46,383
Private education loans	8,480	10,584
Deferred income taxes	26,440	34,547
Prepaid expenses and other current assets	22,429	57,923
Total current assets	243,098	291,414
Property and equipment, net	142,164	157,072
Private education loans, excluding current portion, less allowance for loan losses of \$23,612 and \$44,392	62,161	80,292
Deferred income taxes	71,817	71,719
Collateral deposits	91,168	97,932
Other assets	53,606	54,409
Total assets	\$ 664,014	\$ 752,838
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	\$ 68,521	\$ 9,635
Current portion of PEAKS Trust senior debt	20,105	37,545
Current portion of CUSO secured borrowing obligation	23,591	20,813
Accounts payable	59,753	67,848
Accrued compensation and benefits	12,425	12,264
Other current liabilities	31,973	27,153
Deferred revenue	113,739	147,475
Total current liabilities	330,107	322,733
Long-term debt, excluding current portion	0	86,714
PEAKS Trust senior debt, excluding current portion	30,701	48,166
CUSO secured borrowing obligation, excluding current portion	91,728	101,267
Other liabilities	50,342	51,886
Total liabilities	502,878	610,766
Commitments and contingent liabilities (Note 15)		

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Shareholders' equity:

Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued	0	0
Common stock, \$.01 par value, 300,000,000 shares authorized, 37,068,904 issued	371	371
Capital surplus	181,160	198,883
Retained earnings	987,223	963,737
Accumulated other comprehensive (loss) income	(1,693)	1,201
Treasury stock, 13,394,834 and 13,619,010 shares, at cost	(1,005,925)	(1,022,120)
Total shareholders' equity	161,136	142,072
Total liabilities and shareholders' equity	\$ 664,014	\$ 752,838

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

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Amounts in thousands, except per share data)**

	Year Ended December 31,		
	2015	2014	2013
Revenue	\$ 849,826	\$ 961,783	\$ 1,072,311
Costs and expenses:			
Cost of educational services	390,610	460,782	486,353
Student services and administrative expenses	343,676	389,116	397,541
Goodwill and asset impairment	5,203	2,454	0
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters	26,093	32,008	6,923
Loss related to loan program guarantees	0	2,019	90,964
Provision for private education loan losses, net	5,083	14,150	29,349
Total costs and expenses	770,665	900,529	1,011,130
Operating income	79,161	61,254	61,181
Gain (loss) on consolidation of variable interest entities	0	16,631	(73,248)
Interest income	86	65	108
Interest (expense)	(39,847)	(37,808)	(25,277)
Income (loss) before provision for income taxes	39,400	40,142	(37,236)
Provision (benefit) for income taxes	16,102	16,822	(10,212)
Net income (loss)	\$ 23,298	\$ 23,320	\$ (27,024)
Earnings (loss) per share:			
Basic	\$ 0.99	\$ 0.99	\$ (1.15)
Diluted	\$ 0.97	\$ 0.98	\$ (1.15)
Weighted average shares outstanding:			
Basic	23,651	23,474	23,412
Diluted	23,957	23,681	23,412

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

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ITT EDUCATIONAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	\$ 23,298	\$ 23,320	\$ (27,024)
Other comprehensive income (loss), net of tax:			
Net actuarial pension (loss) gain, net of income tax of \$1,364, \$683 and \$6,811	(2,159)	(1,077)	10,755
Net actuarial pension loss amortization, net of income tax of \$0, \$0 and \$790	1	0	1,247
Prior service cost (credit) amortization, net of income tax of \$602, \$603 and \$604	(953)	(952)	(951)
Pension settlement, net of income tax of \$137, \$53 and \$17	217	84	25
Other comprehensive income (loss), net of tax	(2,894)	(1,945)	11,076
Comprehensive income (loss)	\$ 20,404	\$ 21,375	\$ (15,948)

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

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)**

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	\$ 23,298	\$ 23,320	\$ (27,024)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization	21,973	26,456	27,252
Provision for doubtful accounts	35,195	63,928	67,640
Deferred income taxes	7,671	38,291	(54,102)
Stock-based compensation expense	5,786	10,336	11,638
Settlement payments	(4,500)	0	(46,000)
Goodwill and asset impairment	5,203	2,454	0
Accretion of discount on private education loans	(11,603)	(12,170)	(12,996)
Accretion of discount on long-term debt	2,491	118	0
Accretion of discount on PEAKS Trust senior debt	4,902	16,220	4,926
Accretion of discount on CUSO secured borrowing obligation	845	231	0
Provision for private education loan losses	5,083	14,150	29,349
(Gain) loss on consolidation of variable interest entities	0	(16,631)	73,248
Other	(504)	(613)	315
Changes in operating assets and liabilities, net of acquisition:			
Restricted cash	25	2,334	(455)
Accounts receivable	(37,649)	(10,010)	(87,225)
Private education loans	26,755	18,552	11,554
Accounts payable	(9,394)	9,591	(5,574)
Other operating assets and liabilities	34,869	(48,624)	73,880
Deferred revenue	(33,736)	(1,156)	11,299
Net cash flows from operating activities	76,710	136,777	77,725
Cash flows from investing activities:			
Capital expenditures	(7,405)	(6,092)	(5,147)
Acquisition of company, net of cash acquired	0	(5,220)	(7,150)
Collateralization of letters of credit	88,662	(89,304)	0
Collateral and escrowed funds	(81,895)	0	0
Proceeds from repayment of notes	0	293	461
Purchases of investments	(3)	(2)	(1,242)
Net cash flows from investing activities	(641)	(100,325)	(13,078)
Cash flows from financing activities:			

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Debt issue costs	0	(4,938)	0
Proceeds from term borrowings	0	100,000	0
Repayment of term debt and revolver borrowings	(30,319)	(50,000)	(90,000)
Repayment of PEAKS Trust senior debt	(39,807)	(158,668)	(1,946)
Repayment of CUSO secured borrowing obligation	(10,351)	(1,766)	0
Common shares tendered for taxes	(632)	(914)	(395)
Net cash flows from financing activities	(81,109)	(116,286)	(92,341)
Net change in cash and cash equivalents	(5,040)	(79,834)	(27,694)
Cash and cash equivalents at beginning of period	135,937	215,771	243,465
Cash and cash equivalents at end of period	\$ 130,897	\$ 135,937	\$ 215,771

Supplemental disclosures of cash flow information:

Cash paid (refunded) during the period for:

Income taxes (net of refunds)	\$ (17,359)	\$ 14,466	\$ 61,131
Interest	\$ 23,276	\$ 20,897	\$ 3,310
Non-cash operating activities:			
Consolidation of variable interest entities assets	\$ 0	\$ 30,136	\$ 113,819
Consolidation of variable interest entities liabilities	\$ 0	\$ 2,564	\$ 471
Non-cash operating and investing activities:			
Accrued capital expenditures	\$ 1,564	\$ 236	\$ 0
Non-cash financing activities:			
Issuance of treasury stock for Directors compensation	\$ 206	\$ 38	\$ 0
Consolidation of PEAKS Trust senior debt	\$ 0	\$ 0	\$ 226,096
Consolidation of CUSO secured borrowing obligation	\$ 0	\$ 122,542	\$ 0

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

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ITT EDUCATIONAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars and shares in thousands)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Common Stock in Treasury		Total
	Shares	Amount	Surplus	Earnings	(Loss)	Shares	Amount	
Balance as of December 31, 2012	37,069	\$ 371	\$ 197,113	\$ 967,473	\$ (7,930)	(13,744)	\$ (1,031,262)	\$ 125,765
Net (loss)				(27,024)				(27,024)
Other comprehensive income, net of income tax					11,076			11,076
Equity award vesting			(3,297)			68	3,297	0
Tax benefit from equity awards			(5,414)					(5,414)
Stock-based compensation			11,638					11,638
Shares tendered for taxes						(23)	(395)	(395)
Balance as of December 31, 2013	37,069	371	200,040	940,449	3,146	(13,699)	(1,028,360)	115,646
Net income				23,320				23,320
Other comprehensive (loss), net of income tax					(1,945)			(1,945)
Equity award vesting			(7,084)			121	7,084	0
Tax benefit from equity awards			(4,409)					(4,409)
Stock-based compensation			10,336					10,336
Shares tendered for taxes						(42)	(914)	(914)
Issuance of shares for Directors compensation				(32)		1	70	38
Balance as of December 31, 2014	37,069	371	198,883	963,737	1,201	(13,619)	(1,022,120)	142,072
Net income				23,298				23,298
					(2,894)			(2,894)

Other comprehensive
(loss), net of income
tax

Equity award vesting	(16,809)	334	16,809	0
Tax benefit from equity awards	(6,700)			(6,700)
Stock-based compensation	5,786			5,786
Shares tendered for taxes		(112)	(632)	(632)
Issuance of shares for Directors compensation	188	2	18	206

Balance as of

December 31, 2015 37,069 \$ 371 \$ 181,160 \$ 987,223 \$ (1,693) (13,395) (\$ 1,005,925) \$ 161,136

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

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ITT EDUCATIONAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data and unless otherwise stated)

1. Business and Significant Accounting Policies

Business Overview. ITT Educational Services, Inc. is a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. References in these Notes to we, us and our refer to ITT Educational Services, Inc., its wholly-owned subsidiaries and the variable interest entities (VIEs) that it consolidates, unless the context requires or indicates otherwise. As of December 31, 2015, we were offering:

master, bachelor and associate degree programs to approximately 45,000 students at ITT Technical Institute and Daniel Webster College locations; and

short-term information technology and business learning solutions for individuals.

In addition, we offered one or more of our online education programs to students who are located in all 50 states. As of December 31, 2015, we had 138 campus locations in 39 states. All of our campus locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since 2009 under the Daniel Webster College name. In January 2014, we acquired certain assets and assumed certain liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. CompetenC Solutions, Inc. and Great Equalizer, Inc. were education companies that operated primarily under the name of Ascolta (Ascolta) and offered short-term information technology and business learning solutions for career advancers and other professionals. In August 2013, we acquired all of the membership interests of Cable Holdings, LLC (Cable Holdings), an education company that offered short-term information technology and business learning solutions for career advancers and other professionals. See Note 3 Acquisitions, for additional discussion of the acquisitions of the Ascolta business and Cable Holdings. Our corporate headquarters are located in Carmel, Indiana.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of our wholly-owned subsidiaries and the VIEs that we consolidate, and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Arrangements where we have a variable interest in another party are evaluated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC or Codification) 810, Consolidation (ASC 810), to determine whether we are required to consolidate the other party in our consolidated financial statements. See Note 8 Variable Interest Entities, for a further discussion of the VIEs in which we held a variable interest and the consolidation of those entities in our consolidated financial statements as of and for the years ended December 31, 2015, 2014 and 2013. All intercompany balances and transactions are eliminated upon consolidation. We review the operations of our business on a regular basis to determine our reportable operating segments, as defined in ASC 280, Segment Reporting. As of December 31, 2015, 2014 and 2013, we reported our financial results under one reportable operating segment.

Use of Estimates. The preparation of these consolidated financial statements, in accordance with GAAP, requires estimates and assumptions that affect amounts reported and disclosed in our consolidated financial statements and accompanying notes. Actual results could differ materially from the estimates. Significant accounting estimates and assumptions are used for, but not limited to:

the allowance for doubtful accounts;

the allowance for private education loan losses;

useful lives of tangible and intangible assets;

goodwill and asset impairments;

fair value of the assets and liabilities of the VIEs upon consolidation;

fair value of the assets acquired and liabilities assumed related to acquisitions;

self-insurance;

pension liabilities;

stock-based compensation;

guarantee obligations;

income tax valuation allowances and unrecognized income tax benefits; and

litigation liabilities.

Our accounting estimates may be adjusted or refined due to changes in the facts and circumstances supporting the accounting estimates. Such changes and refinements are reflected in our consolidated financial statements in the period in which they are made and, if material, their effects are disclosed in our consolidated financial statements.

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Cash Equivalents. Highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents.

Restricted Cash. The funds from the federal student financial aid programs under Title IV (Title IV Programs) of the Higher Education Act of 1965, as amended (HEA), and certain other monies transferred to us by electronic funds transfer, are subject to holding restrictions before they can be drawn into our cash account. The funds subject to these holding periods are identified as restricted cash until they are applied to the students' accounts. In addition, funds held for students from Title IV Programs that result in a credit balance on a student's account are also reflected as restricted cash on our Consolidated Balance Sheet. The amount of these funds included on our Consolidated Balance Sheet was \$585 as of December 31, 2015 and \$1,967 as of December 31, 2014.

We consolidated two VIEs in our consolidated financial statements, one beginning on February 28, 2013 and the other beginning on September 30, 2014. Funds held by these VIEs are classified as restricted cash on our Consolidated Balance Sheets, because those funds can only be used to satisfy the obligations of the related VIE. Funds held by the VIEs included in restricted cash on our Consolidated Balance Sheet were \$5,430 as of December 31, 2015 and \$4,073 as of December 31, 2014.

Collateral Deposits. We have provided cash collateral and escrowed funds for:

our guarantee obligations to a VIE;

workers' compensation obligations;

letters of credit issued for our account; and

regulatory requirements.

The amount of the cash collateral and escrowed funds provided for these purposes is included in the line item Collateral deposits on our Consolidated Balance Sheets. The funds held as cash collateral and escrowed funds are not available for use by us.

We maintain an escrow account to secure our guarantee obligation to the VIE that we consolidated in our consolidated financial statements beginning September 30, 2014. The amount of funds that are required to be held in the escrow account is based on a percentage of the aggregate principal balance of the private education loans associated with our guarantee obligation to the VIE. We may be required to increase the amount held in this escrow account if we are not in compliance with certain covenants. The amount of funds in this escrow account was \$8,631 as of December 31, 2015 and \$8,628 as of December 31, 2014. See Note 15 Commitments and Contingencies, for a further discussion of the collateral requirements associated with our guarantee obligation.

In December 2015, we provided cash collateral to one of our insurance carriers to secure our obligations in connection with certain workers' compensation insurance policies instead of issuing a letter of credit. We can replace the cash collateral with a letter of credit at our option at any time. As of December 31, 2015, the amount of funds that we had deposited with the insurance carrier was \$2,187. We deposited an additional \$593 of cash collateral for our workers' compensation obligations in January 2016.

Beginning in 2014, we were required to provide cash collateral in an amount equal to 109% of the face amount of a letter of credit payable to the ED (ED Letter of Credit) and 103% of the face amount of all other letters of credit issued for our account. The balance of this cash collateral was \$109 as of December 31, 2015 and \$89,304 as of December 31, 2014. Of the amount as of December 31, 2014, \$86,882 related to the letter of credit that was issued on October 31, 2014 to the ED. The funds held as cash collateral could be paid to the issuing bank for the letters of credit if the letters of credit are drawn upon and remain subject to such potential use until the cancellation, termination, expiration or reduction of the face amount of the outstanding letters of credit.

On December 16, 2015, we entered into an agreement with the ED (ED Agreement) to provide funds to the ED for the ED to maintain in an escrow account in lieu of the ED Letter of Credit. As of December 31, 2015 the amount of funds held by the ED (ED Escrowed Funds) was \$79,708. See Note 15 Commitments and Contingencies.

Accounts Receivable and Allowance for Doubtful Accounts. We extend unsecured credit to our institutions' students for tuition and fees, and we record a receivable for the tuition and fees earned in excess of the payment received from or on behalf of a student. The average student receivable balance is insignificant. We record an allowance for doubtful accounts with respect to accounts receivable based on our historical collection experience. If our collection trends were to differ significantly from our historical collection experience, we would make a corresponding adjustment to our allowance for doubtful accounts.

When a student is no longer enrolled in an education program at one of our campuses, we increase the allowance for doubtful accounts related to the former student's receivable balance to reflect the amount we estimate will not be collected. The amount that we estimate will not be collected is based on a review of the historical collection experience for our campuses, adjusted as needed to reflect other facts and circumstances. We review the collection activity after a student withdraws or graduates from an education program and write off the accounts receivable, if we conclude that collection of the balance is not probable.

Private Education Loans. We consolidate two VIEs that purchased, own and collect private education loans made to our students in our consolidated financial statements. Beginning on February 28, 2013, we consolidated a VIE, which is a trust (the PEAKS Trust) that purchased, owns and collects private education loans (the PEAKS Trust Student Loans) made under a private education loan program for our students (the PEAKS Program), in our consolidated financial statements (the PEAKS Consolidation). Beginning on September 30, 2014, we consolidated a VIE (the CUSO) that purchased, owns and collects private education loans (the CUSO Student Loans) made under a private education loan program for our students (the CUSO Program), in our consolidated financial statements (the CUSO Consolidation).

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Certain of the PEAKS Trust Student Loans and the CUSO Student Loans (collectively, the Private Education Loans) had evidence of credit deterioration since the date those loans were originated and, therefore, we determined that, at the date of the PEAKS Consolidation and the CUSO Consolidation, it was probable that all contractually required payments under the applicable loans would not be collected. We recorded those loans at fair value at the date of the PEAKS Consolidation and the CUSO Consolidation, as applicable. We also recorded at fair value the Private Education Loans that did not individually have evidence of deteriorated credit quality at the date of the PEAKS Consolidation and the CUSO Consolidation, because we determined that the application of an expected cash flow model provided the most reasonable presentation and this accounting treatment was consistent with the American Institute of Certified Public Accountants (the AICPA) December 18, 2009 Confirmation Letter (the Confirmation Letter). No allowance for loan losses was recorded at the date of the PEAKS Consolidation or the CUSO Consolidation, because all of the Private Education Loans were recorded at fair value and future credit losses are considered in the estimate of fair value. Cash flows from the Private Education Loans expected to be collected within the 12 month period after December 31, 2015 have been classified as current on our Consolidated Balance Sheet. The remaining balance is classified as non-current.

As of the date of the applicable Consolidation, we aggregated the PEAKS Trust Student Loans into 24 separate pools of loans and the CUSO Student Loans into 48 separate pools of loans, based on common risk characteristics of the loans, which included:

the fiscal quarter in which the Private Education Loan was purchased by the PEAKS Trust or the CUSO; and

the consumer credit score of the borrower.

Loans that did not have evidence of deteriorated credit quality were not aggregated in the same pools with loans that had evidence of deteriorated credit quality. The same aggregation criteria, however, were used to determine those loan pools. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

On a quarterly basis subsequent to the PEAKS Consolidation and the CUSO Consolidation, as applicable, we estimate the total principal and interest expected to be collected over the remaining life of each loan pool. These estimates include assumptions regarding default rates, forbearances and other factors that reflect then-current market conditions. Prepayments of loans were not considered when estimating the expected cash flows, because historically, few Private Education Loans have been prepaid.

If a decrease in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be less than the expected cash flows at the end of the previous fiscal quarter, we would record the impairment as:

a provision for private education loan losses in our Consolidated Statement of Operations; and

an increase in the allowance for loan losses on our Consolidated Balance Sheets.

The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses is the difference between the carrying value and the total present

value of the expected principal and interest collections of each loan pool, discounted by the loan pool's effective interest rate at the end of the previous fiscal quarter. If a significant increase in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be greater than the expected cash flows at the end of the previous fiscal quarter, we would:

first reverse any allowance for loan losses with respect to that loan pool that was previously recorded on our Consolidated Balance Sheet, up to the amount of that allowance; and

record any remaining increase prospectively as a yield adjustment over the remaining estimated lives of the loans in the loan pool.

The impact of prepayments, changes in variable interest rates and any other changes in the timing of the expected cash flows of a loan pool are recognized prospectively as adjustments to interest income.

The impact of modifications made to loans in a loan pool is incorporated into our quarterly assessment of whether a significant change in the expected cash flows of the loan pool is probable or has occurred. We consider the historical loss experience associated with the Private Education Loans in estimating the future probabilities of default for all of the outstanding Private Education Loans.

The excess of any cash flows expected to be collected with respect to a loan pool of the Private Education Loans over the carrying value of the loan pool is referred to as the accretable yield. The accretable yield is accreted and included as interest income at a level rate of return over the remaining estimated life of the loan pool. If we determine that the timing and/or amounts of expected cash flows with respect to a loan pool are not reasonably estimable, no interest income would be accreted and the loans in that loan pool would be reported as nonaccrual loans. We recognize the accretable yield of the Private Education Loans as interest income, because the timing and the amounts of the expected cash flows are reasonably estimable.

If a Private Education Loan is paid in full or charged-off, that loan is removed from the loan pool. If the amount of the proceeds received for that loan, if any, is less than the unpaid principal balance of the loan, the difference is first applied against the loan pool's

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nonaccretable difference for principal losses (i.e., the lifetime credit loss estimate established at the date of the related Consolidation). If the nonaccretable difference for principal losses with respect to a loan pool has been fully depleted, any unpaid loan principal balance in excess of the proceeds received for the loan is charged-off against the loan pool's allowance for loan losses. We do not recognize charge-offs of individual Private Education Loans when those loans reach certain stages of delinquency, because those loans are accounted for at a loan pool level.

If any portion of a Private Education Loan that had previously been charged-off is recovered, the amount collected increases the applicable loan pool's nonaccretable difference. If the nonaccretable difference with respect to the applicable loan pool has been fully depleted, the amount collected increases that loan pool's allowance for loan losses. If amounts are recovered from Private Education Loans that were not recognized on our Consolidated Balance Sheet at the time of the PEAKS Consolidation or the CUSO Consolidation (because it was estimated that they had no value), we recognize the amount of these recoveries in our Consolidated Statements of Operations as a reduction to the provision for loan losses.

Property and Equipment. Property and equipment is recorded on our consolidated financial statements at cost, less accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred. Expenditures that extend the useful lives of our assets are capitalized.

Developed or purchased software is capitalized in accordance with ASC 350, Intangibles—Goodwill and Other. Facility construction costs are capitalized as incurred, with depreciation commencing when the facility is placed in service.

Provisions for depreciation and amortization of property and equipment have generally been made using the straight-line method over the following ranges of useful lives:

Type of Property and Equipment	Estimated Useful Life
Furniture and equipment	3 to 10 years
Leasehold, building and land improvements	3 to 14 years
Buildings	20 to 40 years

We amortize leasehold improvements using the straight-line method over the shorter of the life of the improvement or the term of the underlying lease. Land is not depreciated.

Long-Lived Assets. We review our long-lived assets (which are primarily property and equipment) for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We assess the recoverability of the carrying value of the long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

An impairment of a long-lived asset or asset group exists when the carrying value of a long-lived asset or asset group exceeds the total amount of the estimated undiscounted future cash flows from that asset or asset group. An impairment loss is measured and recognized based on the amount of the difference between the estimated fair value and carrying value of the asset or asset group. We base our impairment analyses of long-lived assets on our current business strategy, expected growth rates and estimates of future economic and regulatory conditions. The estimated cash flows used in the evaluation of impairment and the fair value used to determine the impairment are based on assumptions. Changes in assumptions resulting from changes in actual results from those anticipated may result in a future impairment charge.

Goodwill and Other Indefinite-Lived Intangible Assets. Goodwill and certain other intangible assets (primarily trademarks) are not amortized, because there are no legal, regulatory, contractual, economic or other factors that limit the useful life of those intangible assets. Intangible assets that are not amortized (indefinite-lived intangible assets) are subject to evaluation for impairment. We perform this evaluation annually, during the fourth quarter, or more frequently if facts and circumstances warrant. Certain triggering events are considered by us when evaluating whether an interim impairment analysis is warranted. These events may include a significant long-term decrease in our market capitalization based on events specific to our operations, as well as deteriorating operating results and current period and projected future operating results that negatively differ from the operating plans used in the most recent impairment analysis. We also consider changes in the accreditation, regulatory or legal environment; increased competition; innovation changes; and changes in the market acceptance of our educational programs and the graduates of those programs, among other factors, when determining whether an interim impairment analysis is warranted.

We assess whether goodwill or other indefinite-lived intangible assets may be impaired by determining the estimated fair value of the reporting unit and comparing that value to the carrying value of the reporting unit. If the carrying value of the reporting unit exceeds the estimated fair value of the reporting unit, we allocate the estimated fair value of the reporting unit to the assets (including intangible assets) and liabilities of the reporting unit, with the residual representing the implied fair value of goodwill. We recognize an impairment loss if, and to the extent that, the carrying value of the goodwill or other indefinite-lived intangible asset exceeds its estimated fair value.

Insurance Liabilities. We record liabilities and related expenses for medical, workers compensation and other insurance in accordance with the contractual terms of the insurance policies. We record the total liabilities that are estimable and probable as of the reporting date for our insurance liabilities that we self-insure. The accounting for our self-insured arrangements involves estimates and judgments to determine the liability to be recorded for reported claims and claims incurred but not reported. We consider our historical experience in determining the appropriate insurance liability to record. If our current insurance claim trends were to differ significantly from our historic claim experience, however, we would make a corresponding adjustment to our insurance liability.

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Contingent Liabilities. We are subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, guarantee obligations and employee-related matters, among others. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs associated with the claim or potential claim. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount involved is material.

Prior to the CUSO Consolidation, we determined the amount of our contingent liability for our guarantee obligations related to the CUSO Program by estimating the expected payments to be made by us under the guarantee and the amount that we expected to be repaid to us. We also considered the payment options available to us. To the extent that we projected that we would have sufficient funds available to pay the full amount of the outstanding balance of those private education loans that have been charged off at the time that they default to satisfy our guarantee obligations, we incorporated that assumption into our estimate of the contingent liability. If we did not believe that we would have sufficient funds available, we assumed that we would make monthly payments to satisfy our guarantee obligations related to the CUSO Program. We discounted the amount of those expected future monthly payments at a risk-free rate of interest. Making payments for the full amount of the charged-off loans at the time that they default results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligations in future periods and, therefore, results in an estimated contingent liability that is less than if we had assumed we would make monthly payments in the future.

The difference between the amount of the guarantee payments that we expected to make and the amount that we expected would be repaid to us, each discounted at a risk-free rate of interest, as applicable, was included in our estimate of the amount of our contingent liability related to our guarantee obligations under the CUSO Program prior to the date of the CUSO Consolidation. Beginning on September 30, 2014, we no longer record a contingent liability related to the CUSO Program on our Consolidated Balance Sheets because the contingent liability was eliminated upon the CUSO Consolidation.

Debt. The PEAKS Trust issued senior debt in the initial aggregate principal amount of \$300,000 (the PEAKS Senior Debt). In accordance with ASC 810, we included the PEAKS Senior Debt on our Consolidated Balance Sheet at its fair value as of February 28, 2013, the date of the PEAKS Consolidation. The difference between the fair value of the PEAKS Senior Debt and its outstanding aggregate principal balance at the date of the PEAKS Consolidation was recorded as an accrued discount on our Consolidated Balance Sheet at the date of the PEAKS Consolidation. The accrued discount is being recognized in interest expense, using the interest method based on the actual and projected cash flows, over the expected life of the PEAKS Senior Debt.

Commitment fees and other amounts that we paid to or on behalf of a third-party lender to realize the proceeds of debt financing have been recorded as a discount to the associated debt on our Consolidated Balance Sheets and are amortized into interest expense using the interest method.

CUSO Secured Borrowing Obligation. The owners of the CUSO (the CUSO Participants) purchased participation interests in the CUSO Student Loans from the CUSO. The terms of the agreements between the CUSO Participants and the CUSO did not meet the requirements under ASC 860, Transfers and Servicing, to be considered a sale. As a result, the CUSO was required to record a liability (the CUSO Secured Borrowing Obligation) on its balance sheet for the cash received from the CUSO Participants. The CUSO Secured Borrowing Obligation represents the estimated amount that the CUSO owes to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the risk-sharing agreement

(the CUSO RSA) that we entered into with the CUSO on February 20, 2009.

In accordance with ASC 810, we included the CUSO Secured Borrowing Obligation on our Consolidated Balance Sheet at its fair value as of September 30, 2014, the date of the CUSO Consolidation. The difference between the estimated fair value of the CUSO Secured Borrowing Obligation and the amount expected to be paid by the CUSO to the CUSO Participants was recorded as an accrued discount on our Consolidated Balance Sheet at the date of the CUSO Consolidation. The accrued discount is being recognized in interest expense, using the interest method based on the actual and projected cash flows, over the expected life of the CUSO Secured Borrowing Obligation.

The expected life of the CUSO Secured Borrowing Obligation is an estimate of the period of time over which payments are expected to be made by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans. The period of time over which payments are expected to be made by the CUSO to the CUSO Participants is based on when the CUSO Student Loans enter a repayment status and the period of time they remain in a repayment status. Since all of the CUSO Student Loans have not entered repayment, and those loans that have entered repayment may be granted forbearances or deferments, the period of time over which payments are expected to be made to the CUSO Participants is an estimate. The assumptions used to estimate the expected life of the CUSO Secured Borrowing Obligation are reviewed periodically and updated accordingly, which may result in an adjustment to the expected life of the CUSO Secured Borrowing Obligation and the related recognized interest expense.

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Treasury Stock. Repurchases of outstanding shares of our common stock are recorded at cost. Treasury stock issued in fulfillment of stock-based compensation awards or other obligations is accounted for under the last in, first out method. We record losses from the sale of treasury stock that exceed previous net gains from the sale of treasury stock as a charge to retained earnings.

Recognition of Revenue. Tuition revenue is recorded on a straight-line basis over the length of the applicable course to the extent that we consider the collectability of that revenue to be reasonably assured. If a student withdraws from an institution, the standards of most state education authorities that regulate our institutions, the accrediting commissions that accredit our institutions and our own internal policy limit a student's obligation for tuition and fees to the institution depending on when a student withdraws during an academic term (Refund Policies). The terms of the Refund Policies vary by state, and the limitations imposed by the Refund Policies are generally based on the portion of the academic term that has elapsed at the time the student withdraws. Generally, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student's obligation is to the institution for the tuition and fees related to that academic term. We record revenue net of any refunds that result from any applicable Refund Policy. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as deferred revenue.

We do not charge a separate fee for textbooks that students use in their education programs. We record the cost of these textbooks in Prepaid expenses and other current assets and amortize the cost of textbooks on a straight-line basis over the applicable course length. Tool kit sales, and the related cost, are recognized when the student receives the tool kit. Academic fees (which are charged only one time to students on their first day of class attendance) are recognized as revenue on a straight-line basis over the average length of the education program. If a student withdraws from an institution, all unrecognized revenue relating to his or her fees, net of any refunds that result from any applicable Refund Policy, is recognized upon the student's departure. An administrative fee is charged to a student and recognized as revenue when the student withdraws or graduates from an education program at an institution. We reassess the collectability of tuition revenue on a student-by-student basis throughout our revenue recognition period. We reassess the collectability of tuition revenue that we may earn based on new information and changes in the facts and circumstances relevant to a student's ability to pay, which primarily include when a student withdraws from a program of study.

We report 12 weeks of tuition revenue in each of our four fiscal quarters. We standardized the number of weeks of revenue reported in each fiscal quarter, because the timing of student breaks in a calendar quarter can fluctuate from quarter to quarter each year. The total number of weeks of school during each year is 48.

We provide institutional scholarships and awards to our institutions' students, which those students use to help reduce their educational expenses. Institutional scholarships and awards reduce the students' tuition charges and are recorded as offsets to revenue in the period in which the tuition is earned.

Interest income on the Private Education Loans, which is the accretion of the accretable yield on the Private Education Loans, is included in revenue and recognized based on the effective interest method as described in Note 9 Private Education Loans.

Advertising Costs. We expense all advertising costs as incurred. Advertising expense, which is included in Student services and administrative expenses in our Consolidated Statements of Operations, was \$167,927 in the year ended December 31, 2015, \$177,564 in the year ended December 31, 2014 and \$177,791 in the year ended December 2013.

Equity-Based Compensation. Stock-based compensation cost for our equity instruments exchanged for employee and director services is measured at the date of grant, based on the calculated fair value of the grant and is recognized as

an expense on a straight-line basis over the period of time that the grantee must provide services to us before the stock-based compensation is fully vested. The vesting period is generally the period set forth in the agreement granting the stock-based compensation. Under the terms of our stock-based compensation plans, some grants immediately vest in full when the grantee's employment or service terminates due to death or disability. As a result, in certain circumstances, the period of time that the grantee provides services to us in order for that stock-based compensation to fully vest may be less than the vesting period set forth in the agreement granting the stock-based compensation. In these instances, compensation expense will be recognized over this shorter period.

We use a binomial option pricing model to determine the fair value of stock options granted and we use the market price of our common stock to determine the fair value of restricted stock units (RSUs) granted. The binomial option pricing model takes into account the variables defined below:

Volatility is a statistical measure of the extent to which the stock price is expected to fluctuate during a period and combines our historical stock price volatility and the implied volatility as measured by actively traded stock options.

Expected life is the weighted average period that those stock options are expected to remain outstanding, based on the historical patterns of our stock option exercises, as adjusted to reflect the current position-level demographics of the stock option grantees.

Risk-free interest rate is based on interest rates for terms that are similar to the expected life of the stock options.

Dividend yield is based on our historical and expected future dividend payment practices.

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We generally issue shares of our common stock from treasury shares upon the exercise of stock options or vesting of RSUs. As of December 31, 2015, approximately 13.4 million shares of our common stock were held in treasury. Our Board of Directors has authorized us to repurchase outstanding shares of our common stock, but we do not expect to repurchase any outstanding shares of our common stock in 2016.

Operating Leases. We lease our non-owned facilities under operating lease agreements. Common provisions within our operating lease agreements include:

renewal options, which can be exercised after the initial lease term;

rent escalation clauses;

tenant improvement allowances; and

rent holidays.

We record the rent expense associated with each operating lease agreement evenly over the term of the lease. The difference between the amount of rent expense recorded and the amount of rent actually paid is recorded as either prepaid or accrued rent, which is included in Other assets or Other liabilities, on our Consolidated Balance Sheets. We recognize a liability for the costs to terminate the lease of a leased facility when we cease using that leased facility.

Income Taxes. We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax bases and financial reporting bases of our assets and liabilities.

We follow the guidance under ASC 740, *Income Taxes* (ASC 740), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on its tax returns. This guidance requires us to evaluate whether it is more likely than not, based on the technical merits of a tax position, that the benefits resulting from the position will be realized by us.

We record interest and penalties related to unrecognized tax benefits in income tax expense.

2. New Accounting Guidance

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASU 2016-02), which is included in the Codification under ASC 840, *Leases* (ASC 840). This guidance introduces a new lessee model that brings substantially all leases on the balance sheet and represents a significant change to lease accounting. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2019, with early adoption permitted. We are assessing the impact that ASU 2016-02 may have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes* (ASU 2015-17), which is included in the Codification under ASC 740. This guidance simplifies the presentation of deferred income taxes by requiring that

deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2017. Earlier adoption is permitted as of the beginning of an interim or annual reporting period. The amendments in ASU 2015-17 may be applied either prospectively to all deferred income tax liabilities and assets or retrospectively to all periods presented. We are assessing the impact that this guidance may have on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement Period Adjustments* (ASU 2015-16), which is included in the Codification under ASC 805, *Business Combinations* (ASC 805). This guidance simplifies the accounting for adjustments made to provisional amounts recognized in a business combination and requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts. In addition, an entity is required to present separately on the face of its financial statements or disclose in the notes to its financial statements, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016. We do not expect the adoption of ASU 2015-16 to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory* (ASU 2015-11), which is included in the Codification under ASC 330, *Inventory* (ASC 330). This guidance requires inventory to be measured at the lower of cost and net realizable value under certain circumstances. Current guidance requires inventory to be measured at the lower of cost or market value, where market value could be either replacement cost, net realizable value, or net realizable value less a normal profit margin. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2017, with early adoption permitted. We do not expect the adoption of ASU 2015-11 to have a material impact on our consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which is included in the Codification under ASC 835, *Interest* (ASC 835). This guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that liability. These standards became effective for our interim and annual reporting periods beginning January 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2015-03 to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Amendment to the Consolidation Analysis* (ASU 2015-02), which is included in the Codification under ASC 810. This guidance changes the analysis that an entity must perform to determine whether it should consolidate certain types of legal entities. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2015-02 to have a material impact on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items* (ASU 2015-01), which is included in the Codification under ASC 225, *Income Statement* (ASC 225). This guidance eliminates the concept of extraordinary items from GAAP. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016, with early adoption permitted. We do not expect the adoption of ASU 2015-01 to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern* (ASU 2014-15), which is included in the Codification under ASC 205, *Presentation of Financial Statements* (ASC 205). This guidance was issued to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosure in certain circumstances. Under the new guidance, management is required to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. The guidance will be effective for our interim and annual reporting periods beginning January 1, 2017, with early adoption permitted. We are assessing the impact that this guidance may have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which is included in the Codification under ASC 606, *Revenue From Contracts With Customers* (ASC 606). This guidance requires the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected in exchange for those goods or services. Originally, this guidance was to become effective for our interim and annual reporting periods beginning January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 by one year. Therefore, ASU 2014-09 will become effective for our interim and annual reporting periods beginning January 1, 2018. Early adoption is permitted, but not any earlier than the original effective date. We are assessing the impact that this guidance may have on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08), which is included in the Codification under ASC 205. This update changes the requirements for reporting discontinued operations and clarifies when disposals of groups of assets qualify for a discontinued operations presentation under ASC 205. This guidance became effective for our interim and annual reporting periods beginning January 1, 2015. The adoption of ASU 2014-08 did not have a material impact on our consolidated financial statements.

3. Acquisitions

On January 31, 2014, we acquired certain assets and assumed certain liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. for approximately \$5,220. CompetenC Solutions, Inc. and Great Equalizer, Inc. were education companies that operated primarily under the name of Ascolta and offered short-term information technology and business learning solutions for career advancers and other professionals. The acquisition of the Ascolta business allowed us to expand our offerings in the short-term learning solutions market by integrating the Ascolta operations into the Center for Professional Development @ ITT Technical Institute (the CPD).

Our consolidated financial statements include the results of the Ascolta business beginning as of the acquisition date. The revenue and expenses of the Ascolta business included in our Consolidated Statement of Operations for the year ended December 31, 2014 were not significant. Our revenue, net income and earnings per share would not have been significantly affected, if the revenue and expenses of the Ascolta business were presented for the year ended December 31, 2014 and 2013 as if the transaction had occurred at the beginning of the earliest period presented. The costs incurred to acquire the Ascolta business were expensed and were not significant.

We accounted for the acquisition of the Ascolta business in accordance with ASC 805, which requires the use of the acquisition method of accounting for all business combinations. The excess of the consideration paid over the estimated fair values of the identifiable net assets acquired was recognized as goodwill and is expected to be deductible for income tax purposes. The identifiable intangible assets acquired consist of customer relationships and non-compete agreements, which are being amortized over a weighted-average life of approximately five years.

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The following table sets forth the estimated fair values allocated to the major classes of assets acquired and liabilities assumed in the Ascolta business acquisition as of the acquisition date:

	Assets Acquired	Liabilities Assumed
Accounts receivable and other current assets	\$ 849	
Furniture and equipment	370	
Identifiable intangible assets	1,670	
Goodwill	3,332	
Other liabilities		\$ 1,001

On August 1, 2013, we acquired all of the membership interests of Cable Holdings for \$7,150 in cash, net of cash acquired. Cable Holdings was an education company that operated under the name of Benchmark Learning and offered short-term information technology and business learning solutions for career advancers and other professionals. The acquisition of Cable Holdings allowed us to immediately begin operating in the short-term learning solutions market, and we integrated Cable Holdings operations into the CPD.

Our consolidated financial statements include the results of Cable Holdings from the acquisition date. The revenue and expenses of Cable Holdings included in our Consolidated Statements of Operations for the year ended December 31, 2013 were not significant. Our revenue, net income and earnings per share would not have been significantly affected, if the revenue and expenses of Cable Holdings were presented for the year ended December 31, 2013 as if the transaction had occurred at the beginning of the earliest period presented. The costs incurred to acquire Cable Holdings were expensed and were not significant.

We accounted for the acquisition of Cable Holdings in accordance with ASC 805. The excess of the consideration paid over the estimated fair values of the identifiable net assets acquired was recognized as goodwill and is expected to be deductible for income tax purposes. The identifiable intangible assets acquired consist of customer relationships, non-compete agreements and training materials, which are being amortized over a weighted-average life of approximately five years.

The following table sets forth the estimated fair values allocated to the major classes of assets acquired and liabilities assumed in the Cable Holdings acquisition as of the acquisition date:

	Assets Acquired	Liabilities Assumed
Accounts receivable and other current assets	\$ 1,110	
Furniture and equipment	480	
Identifiable intangible assets	2,390	
Goodwill	3,958	
Accounts payable and other liabilities		\$ 788

In 2015, the goodwill associated with the acquisition of the Ascolta business and Cable Holdings was fully written-off. See Note 11 Goodwill and Other Intangibles, for additional discussion of the write-off of the goodwill.

4. Fair Value and Credit Risk of Financial Instruments

Fair value for financial reporting is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under the accounting guidance. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Consolidated Balance Sheet as of December 31, 2015:

Description	Fair Value Measurements at Reporting Date Using			
	As of December 31, 2015	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash equivalents:				
Money market fund	\$ 130,821	\$ 130,821	\$ 0	\$ 0
Restricted cash:				
Money market fund	585	585	0	0
Collateral deposits:				
Money market fund	8,631	8,631	0	0
	\$ 140,037	\$ 140,037	\$ 0	\$ 0

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The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Consolidated Balance Sheet as of December 31, 2014:

Description	As of December 31, 2014	Fair Value Measurements at Reporting Date Using		
		(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash equivalents:				
Money market fund	\$ 60,960	\$ 60,960	\$ 0	\$ 0
Restricted cash:				
Money market fund	1,967	1,967	0	0
Collateral deposits:				
Money market fund	8,628	8,628	0	0
	\$ 71,555	\$ 71,555	\$ 0	\$ 0

We used quoted prices in active markets for identical assets as of the measurement dates to value our financial assets that were categorized as Level 1.

The carrying value for cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. We did not have any financial assets or liabilities recorded at estimated fair value on a non-recurring basis on our Consolidated Balance Sheets as of December 31, 2015 or 2014.

The carrying value of the Private Education Loans was \$70,641 as of December 31, 2015 and \$90,876 as of December 31, 2014. The estimated fair value of the Private Education Loans was approximately \$81,335 as of December 31, 2015 and approximately \$101,623 as of December 31, 2014. The fair value of the Private Education Loans was estimated using the income approach with estimated discounted expected cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the Private Education Loans. The significant inputs used in determining the estimated fair value included the default rate, repayment rate and discount rate. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

As of December 31, 2015, the carrying value of our debt under our Financing Agreement (as defined in Note 12 Debt) was \$68,521 and the estimated fair value was approximately \$70,000. As of December 31, 2014, each of the carrying value and the estimated fair value of our debt under our Financing Agreement was approximately \$96,349. The fair value of our debt under the Financing Agreement was estimated by discounting the future expected cash flows using current rates for similar loans with similar characteristics and remaining maturities. We utilized inputs that were unobservable in determining the estimated fair value of our debt under the Financing Agreement. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

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The carrying value of the PEAKS Senior Debt was \$50,806 as of December 31, 2015 and \$85,711 as of December 31, 2014. The estimated fair value of the PEAKS Senior Debt was approximately \$47,000 as of December 31, 2015 and approximately \$85,000 as of December 31, 2014. The fair value of the PEAKS Senior Debt was estimated using the income approach with estimated discounted expected cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the PEAKS Senior Debt. The significant input used in determining the estimated fair value was the discount rate utilized for both credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

The carrying value of the CUSO Secured Borrowing Obligation was \$115,319 as of December 31, 2015 and \$121,007 as of December 31, 2014. The estimated fair value of the CUSO Secured Borrowing Obligation was approximately \$87,000 as of December 31, 2015 and \$116,933 as of December 31, 2014. The fair value of the CUSO Secured Borrowing Obligation was estimated using the income approach with estimated discounted expected cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the CUSO Secured Borrowing Obligation. The significant input used in determining the estimated fair value was the discount rate utilized for both credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

Financial instruments that potentially subject us to credit risk consist primarily of accounts receivable, cash equivalents and the Private Education Loans. There is no concentration of credit risk of our accounts receivable, as the total is comprised of a large number of individual balances owed by students whose credit profiles vary and who are located throughout the United States. Our cash equivalents generally consist of money market funds which invest in high-quality securities issued by various entities. The Private Education Loans consist of a large number of individual loans owed by borrowers, whose credit profiles vary and who are located throughout the United States.

5. Financial Aid Programs

We participate in various Title IV Programs of the HEA. In 2015, in the aggregate, our institutions derived approximately 80% of their applicable revenue from funds distributed under those Title IV Programs, as determined on a cash accounting basis under the calculation of the provision of the HEA commonly referred to as the 90/10 Rule.

We administer the Title IV Programs in separate accounts as required by government regulation. We are required to administer the funds in accordance with the requirements of the HEA and the ED's regulations and must use due diligence in approving and disbursing funds. In the event we do not comply with federal requirements, or if student loan default rates rise to a level considered excessive by the federal government, we could lose our eligibility to participate in Title IV Programs or could be required to repay funds determined to have been improperly disbursed. Our management believes that we are in substantial compliance with the federal requirements.

6. Equity Compensation Plans

We have adopted the following equity compensation plans, referred to collectively as the Plans :

2006 ITT Educational Services, Inc. Equity Compensation Plan On May 9, 2006, our shareholders approved the 2006 ITT Educational Services, Inc. Equity Compensation Plan (the Original 2006 Plan).

ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan On May 7, 2013, our shareholders approved the ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan and on October 20, 2014 and May 22, 2015, we approved amendments to that plan (as so amended, the Amended 2006 Plan). Awards may be granted to our employees and directors under the Amended 2006 Plan in the form of stock options (incentive and nonqualified), stock appreciation rights (SARs), restricted stock, RSUs, performance shares, performance units and other stock-based awards as defined in the plan. The Amended 2006 Plan increased the maximum number of shares of our common stock that may be issued pursuant to awards under the plan to 7,350,000, an increase of 3,350,000 over the 4,000,000 maximum under the Original 2006 Plan. Each share underlying stock options and SARs granted and not forfeited or terminated, reduces the number of shares available for future awards by one share. The delivery of a share in connection with a full-value award (i.e., an award of restricted stock, RSUs, performance shares, performance units or any other stock-based award with value denominated in shares) reduces the number of shares remaining for other awards by two shares. As of December 31, 2015, restricted stock, RSUs and nonqualified stock options have been awarded under this plan.

All awards granted under equity compensation plans other than the Plans expired in or prior to 2014.

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The amount of stock-based compensation expense and the line items in which those amounts are included in our Consolidated Statements of Operations and the related estimated income tax benefit recognized in the periods indicated were as follows:

	Year Ended December 31,		
	2015	2014	2013
Cost of educational services	\$ 3,075	\$ 4,790	\$ 4,799
Student services and administrative expenses	2,711	5,546	6,839
Total stock-based compensation expense	\$ 5,786	\$ 10,336	\$ 11,638
Income tax (benefit)	\$ (2,227)	\$ (3,980)	\$ (4,481)

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As of December 31, 2015, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately \$3,825, net of estimated forfeitures, will be recognized in future periods. This expense will be recognized over the remaining service period applicable to the grantees which, on a weighted-average basis, is approximately 1.1 years.

Stock Options. Under the Plans, the stock option exercise price may not be less than 100% of the fair market value of our common stock on the date of grant. The maximum term of any stock option granted under the Amended 2006 Plan and Original 2006 Plan may not exceed seven years from the date of grant, and those stock options will be exercisable at such times and under conditions as determined by the Compensation Committee of our Board of Directors, subject to the limitations contained in the plan. All stock options awarded under the Amended 2006 Plan and Original 2006 Plan typically vest and become exercisable in three equal installments commencing with the first anniversary of the date of grant.

The stock options granted, forfeited, exercised and expired in the period indicated were as follows:

	Year Ended December 31, 2015				Aggregate Intrinsic Value (1)
	# of Shares	Weighted Average Exercise Price	Aggregate Exercise Price	Weighted Average Remaining Contractual Term	
Outstanding at beginning of period	1,153,273	\$ 76.92	\$ 88,711		
Granted	121,208	\$ 4.91	595		
Forfeited	(43,334)	\$ 18.23	(790)		
Exercised	0	\$ 0.00	0		
Expired	(142,939)	\$ 84.73	(12,111)		
Outstanding at end of period	1,088,208	\$ 70.21	\$ 76,405	1.5 years	\$ 0
Exercisable at end of period	841,231	\$ 85.96	\$ 72,313	1.3 years	\$ 0

(1) The aggregate intrinsic value of stock options is calculated by identifying those stock options that had a lower exercise price than the closing market price of our common stock on December 31, 2015 and multiplying the difference between the closing market price of our common stock and the exercise price of each of those stock options by the number of shares subject to those stock options that were outstanding or exercisable, as applicable. Since the closing market price of our common stock on December 31, 2015 was lower than the exercise price of all outstanding stock options and exercisable stock options, the aggregate intrinsic value of the stock options was zero.

We expect all of the outstanding stock options that are not exercisable at December 31, 2015 to vest.

The following table sets forth information regarding the stock options granted and exercised in the periods indicated:

Year Ended December 31,

	2015	2014	2013
Shares subject to stock options granted	121,208	168,500	156,500
Weighted average grant date fair value	\$ 3.65	\$ 12.62	\$ 9.27
Shares subject to stock options exercised	0	0	0
Intrinsic value of stock options exercised	\$ 0	\$ 0	\$ 0
Proceeds received from stock options exercised	\$ 0	\$ 0	\$ 0
Tax benefits realized from stock options exercised	\$ 0	\$ 0	\$ 0

The intrinsic value of a stock option is the difference between the fair market value of the stock and the option exercise price.

The fair value of each stock option grant was estimated on the date of grant using the following assumptions:

	Year Ended December 31,		
	2015	2014	2013
Risk-free interest rates	1.6%	1.3%	0.7%
Expected lives (in years)	4.7	4.7	4.6
Volatility	107%	55%	60%
Dividend yield	None	None	None

Restricted Stock Units. Under the Amended 2006 Plan and Original 2006 Plan, RSUs awarded are subject to a restriction period of at least: (a) for awards made prior to November 24, 2010, three years in the case of a time-based period of restriction and one year in the case of a performance-based period of restriction; and (b) for awards made after November 24, 2010, one year, unless the Compensation Committee determines otherwise. All RSUs awarded under the Amended 2006 Plan and Original 2006 Plan that were not vested as of December 31, 2015 have a time-based restriction period that ranges from ending on the first to the third anniversary of the date of grant.

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The following table sets forth the number of RSUs that were granted, forfeited and vested in the period indicated:

	Year Ended December 31, 2015	
	# of RSUs	Weighted Average Grant Date Fair Value
Unvested at beginning of period	831,307	\$ 30.17
Granted	423,632	\$ 4.84
Forfeited	(127,821)	\$ 19.09
Vested	(334,099)	\$ 40.26
Unvested at end of period	793,019	\$ 14.18

The total fair market value of the RSUs that vested and were settled in shares of our common stock was \$1,802 in the year ended December 31, 2015, \$2,512 in the year ended December 31, 2014 and \$1,241 in the year ended December 31, 2013.

7. Earnings (Loss) Per Common Share

Earnings (loss) per common share for all periods have been calculated in conformity with ASC 260, Earnings Per Share. This data is based on historical net income (loss) and the weighted average number of shares of our common stock outstanding during each period as set forth in the following table:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Shares:			
Weighted average number of shares of common stock outstanding	23,651	23,474	23,412
Shares assumed issued (less shares assumed purchased for stock-based compensation)	306	207	Not Applicable
Outstanding shares for diluted earnings (loss) per share calculation	23,957	23,681	23,412

A total of approximately 1.4 million shares for fiscal year 2015, approximately 1.4 million shares for fiscal year 2014 and approximately 1.4 million shares for fiscal year 2013 were excluded from the calculation of our diluted earnings per common share, because the effect was anti-dilutive.

8. Variable Interest Entities

Under ASC 810, an entity that holds a variable interest in a VIE and meets certain requirements would be considered to be the primary beneficiary of the VIE and required to consolidate the VIE in its consolidated financial statements. In order to be considered the primary beneficiary of a VIE, an entity must hold a variable interest in the VIE and have both:

the power to direct the activities that most significantly impact the economic performance of the VIE;
and

the right to receive benefits from, or the obligation to absorb losses of, the VIE that could be potentially significant to the VIE.

We hold variable interests in the PEAKS Trust as a result of:

a subordinated note issued to us by the PEAKS Trust in exchange for the portion of each private education loan disbursed to us under the PEAKS Program that we transferred to the PEAKS Trust (Subordinated Note); and

our guarantee of the payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt (PEAKS Guarantee).

We hold variable interests in the CUSO as a result of:

the CUSO RSA; and

a revolving note owed to us by the CUSO (the Revolving Note).

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Primary Beneficiary Analysis. The PEAKS Trust and the CUSO are VIEs as defined under ASC 810. To determine whether we are the primary beneficiary of the PEAKS Trust or the CUSO, we:

assessed the risks that the VIE was designed to create and pass through to its variable interest holders;

identified the variable interests in the VIE;

identified the other variable interest holders and their involvement in the activities of the VIE;

identified the activities that most significantly impact the VIE's economic performance;

determined whether we have the power to direct those activities; and

determined whether we have the right to receive the benefits from, or the obligation to absorb the losses of, the VIE that could potentially be significant to the VIE.

We determined that the activities of the PEAKS Trust and the CUSO that most significantly impact the economic performance of the PEAKS Trust and the CUSO involve the servicing (which includes the collection) of the PEAKS Trust Student Loans and the CUSO Student Loans. To make that determination, we analyzed various possible scenarios of student loan portfolio performance to evaluate the potential economic impact on the PEAKS Trust and the CUSO. In our analysis, we made what we believe are reasonable assumptions based on historical data for the following key variables:

the composition of the credit profiles of the borrowers;

the interest rates and fees charged on the loans;

the default rates and the timing of defaults associated with similar types of loans; and

the prepayment and the speed of repayment associated with similar types of loans.

Based on our analysis, we concluded that we became the primary beneficiary of the PEAKS Trust on February 28, 2013. This was the first date that we had the power to direct the activities of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust, because we could have exercised our right to terminate the servicing agreement that governs the servicing activities of the PEAKS Trust Student Loans (the PEAKS Servicing Agreement), due to the failure of the entity that performs those servicing activities for the PEAKS Trust Student Loans on behalf of the PEAKS Trust to meet certain performance criteria specified in the PEAKS Servicing Agreement. We have not, however, exercised our right to terminate the PEAKS Servicing Agreement. As a result of

our primary beneficiary conclusion, we consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. Prior to February 28, 2013, the PEAKS Trust was not required to be consolidated in our consolidated financial statements, because we concluded that we were not the primary beneficiary of the PEAKS Trust prior to that time. The PEAKS Trust is discussed in more detail below.

Our consolidated financial statements for periods as of and after February 28, 2013 include the PEAKS Trust, because we were considered to have control over the PEAKS Trust under ASC 810, as a result of our substantive unilateral right to terminate the PEAKS Servicing Agreement. We do not, however, actively manage the operations of the PEAKS Trust, and the assets of the consolidated PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Our obligations under the PEAKS Guarantee remain in effect, until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. See Note 15 Commitments and Contingencies, for a further discussion of the PEAKS Guarantee.

Based on our analysis, we concluded that we became the primary beneficiary of the CUSO on September 30, 2014. This was the first date that we determined we had the power to direct the activities of the CUSO that most significantly impact the economic performance of the CUSO, because the entity that performs the servicing activities on behalf of the CUSO (the CUSO Program Servicer) failed to meet certain performance criteria specified in the servicing agreement that governs the servicing activities of the CUSO Student Loans (the CUSO Servicing Agreement) on that date. The CUSO Servicing Agreement provides that in the event that the CUSO Program Servicer fails to meet certain performance criteria specified in the CUSO Servicing Agreement, and the CUSO Program Servicer does not affect a cure of that failure during a specified cure period, we would have the right to terminate the CUSO Servicing Agreement. We determined that it was not reasonably possible that the CUSO Program Servicer would be able to affect a cure during the specified cure period and, therefore, because the cure period was not substantive, we effectively had the right to terminate the CUSO Servicing Agreement as of the date that the CUSO Program Servicer failed to meet the performance criteria. We have provided notice of termination of the CUSO Servicing Agreement, however, the termination will not be effective until a successor servicer has been retained by the CUSO.

As a result of our primary beneficiary conclusion, we consolidated the CUSO in our consolidated financial statements beginning on September 30, 2014. Prior to September 30, 2014, the CUSO was not required to be consolidated in our consolidated financial statements, because we concluded that we were not the primary beneficiary of the CUSO prior to that time. The CUSO is discussed in more detail below.

Our consolidated financial statements for periods as of and after September 30, 2014 include the CUSO, because we were considered to have control over the CUSO under ASC 810, as a result of our substantive right to terminate the CUSO Servicing Agreement after a cure period that was not substantive. We do not, however, actively manage the operations of the CUSO, and the assets of the consolidated CUSO can only be used to satisfy the obligations of the CUSO. Our obligations under the CUSO RSA remain in effect, until all CUSO Student Loans are paid in full. See Note 15 Commitments and Contingencies, for a further discussion of the CUSO RSA.

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PEAKS Private Student Loan Program. On January 20, 2010, we entered into agreements with unrelated third parties to establish the PEAKS Program, which was a private education loan program for our students. We entered into the PEAKS Program to offer our students another source of private education loans that they could use to help pay their education costs owed to us and to supplement the limited amount of private education loans available to our students under other private education loan programs, including the CUSO Program. Under the PEAKS Program, our students had access to a greater amount of private education loans, which resulted in a reduction in the amount of internal financing that we provided to our students in 2010 and 2011. No new private education loans were or will be originated under the PEAKS Program after July 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through March 2012.

Under the PEAKS Program, an unrelated lender originated private education loans to our eligible students and, subsequently, sold those loans to the PEAKS Trust. The PEAKS Trust issued the PEAKS Senior Debt to investors. The lender disbursed the proceeds of the private education loans to us for application to the students' account balances with us that represented their unpaid education costs. We transferred a portion of the amount of each private education loan disbursed to us under the PEAKS Program to the PEAKS Trust in exchange for the Subordinated Note.

The Subordinated Note issued by the PEAKS Trust to us does not bear interest and matures in March 2026. Principal is due on the Subordinated Note following:

the repayment of the PEAKS Senior Debt;

the repayment of fees and expenses of the PEAKS Trust; and

the reimbursement of the amounts of any payments made by us under the PEAKS Guarantee, other than Payments on Behalf of Borrowers (as defined below).

The carrying value of the Subordinated Note was eliminated from our Consolidated Balance Sheet when we consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. In the three months ended December 31, 2012, we determined it was probable that we would not collect the carrying value of the Subordinated Note and, therefore, recorded an impairment charge for the total carrying value of the Subordinated Note.

The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase the private education loans made by the lender to our students. The assets of the PEAKS Trust (which include, among other assets, the PEAKS Trust Student Loans) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt and the Subordinated Note.

Under the PEAKS Guarantee we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt (the Asset/Liability Ratio). Our guarantee obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. At such time, we will be entitled to repayment of the amounts that we paid under the PEAKS Guarantee (which do not include Payments on Behalf of Borrowers, as defined below), to the extent of available funds remaining in the PEAKS Trust. See Note 15 Commitments and Contingencies, for a further discussion of our obligations to make guarantee payments pursuant to the PEAKS Guarantee.

Assets and Liabilities of the PEAKS Trust. We concluded that we became the primary beneficiary of the PEAKS Trust on February 28, 2013 and, therefore, were required to consolidate the PEAKS Trust in our consolidated financial statements. In accordance with ASC 810, the consolidation of the PEAKS Trust was treated as an acquisition of assets and liabilities and, therefore, the assets and liabilities of the PEAKS Trust were included in our consolidated financial statements at their fair value as of February 28, 2013. The following table sets forth the fair value of the assets and liabilities of the PEAKS Trust as of February 28, 2013 that were included on our Consolidated Balance Sheet on that date:

	As of February 28, 2013	
	Assets	Liabilities
Restricted cash	\$ 1,703	
Current portion of PEAKS Trust student loans	7,282	
PEAKS Trust student loans, excluding current portion	104,834	
Current portion of PEAKS Trust senior debt		\$ 103,356
Other current liabilities		471
PEAKS Trust senior debt, excluding current portion		122,740
Total	\$ 113,819	\$ 226,567

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The following table sets forth the carrying value of the assets and liabilities related to the PEAKS Program as of February 28, 2013 that we eliminated from our Consolidated Balance Sheet when we consolidated the PEAKS Trust in our consolidated financial statements, and the line items within which those assets and liabilities were included:

	As of February 28, 2013	
	Assets	Liabilities
Other assets	\$ 6,614	
Other current liabilities		\$ 3,060
Other liabilities		43,054
Total	\$ 6,614	\$ 46,114

The fair value of the PEAKS Trust's liabilities exceeded the fair value of the PEAKS Trust's assets as of February 28, 2013 by \$112,748. The amount of this excess was reduced by \$39,500, which represented the net amount of the carrying value of the assets and liabilities related to the PEAKS Program that had been recorded in our consolidated financial statements as of February 28, 2013 and were eliminated upon the PEAKS Consolidation. As a result, we recognized a total loss of \$73,248 in our Consolidated Statement of Operations for the three months ended March 31, 2013 related to the PEAKS Consolidation.

The following table sets forth the carrying values of assets and liabilities of the PEAKS Trust that were included on our Consolidated Balance Sheets as of the dates indicated:

	As of December 31,	
	2015	2014
Assets		
Restricted cash	\$ 1,462	\$ 1,556
Current portion of PEAKS Trust student loans	5,746	7,169
PEAKS Trust student loans, excluding current portion, less allowance for loan losses of \$21,816 and \$42,353	45,987	59,902
Total assets	\$ 53,195	\$ 68,627
Liabilities		
Current portion of PEAKS Trust senior debt	\$ 20,105	\$ 37,545
Other current liabilities	191	199
PEAKS Trust senior debt, excluding current portion	30,701	48,166
Total liabilities	\$ 50,997	\$ 85,910

The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Payment of the administrative fees and expenses of the PEAKS Trust and the principal and interest owed on the PEAKS Senior Debt are guaranteed by us under the PEAKS Guarantee.

Revenue and Expenses of PEAKS Trust. The following table sets forth the revenue and expenses of the PEAKS Trust, excluding the loss on consolidation of the PEAKS Trust, that were included in our Consolidated Statements of Operations for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Revenue	\$ 8,702	\$ 11,471	\$ 12,996
Student services and administrative expenses	1,892	4,479	5,288
Provision for private education loan losses	6,519	12,111	29,349
Interest expense	10,598	30,322	21,288
(Loss) before provision for income taxes	\$(10,307)	\$(35,441)	\$(42,929)

The revenue of the PEAKS Trust consists of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans. The servicing, administrative and other fees incurred by the PEAKS Trust are included in Student services and administrative expenses in our Consolidated Statements of Operations. The provision for PEAKS

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Trust student loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses represents the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the PEAKS Trust Student Loans, discounted by the loan pool's effective interest rate as of the end of the reporting period. Interest expense of the PEAKS Trust represents interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt.

Payments on Behalf of Borrowers. Beginning in the fourth quarter of 2012 and continuing through January 2014, we made payments on behalf of certain student borrowers under the PEAKS Program to the PEAKS Trust to avoid defaults by those borrowers on their PEAKS Trust Student Loans (Payments on Behalf of Borrowers), which defaults would have triggered much larger contractually required payments by us under the PEAKS Guarantee. At the time we made Payments on Behalf of Borrowers, we believed that those payments were contractually permitted and a form of payment to the PEAKS Trust that would satisfy obligations that were contractually required. Since that time, however, we have determined that Payments on Behalf of Borrowers are not permitted or required to support the PEAKS Trust. If we had not made Payments on Behalf of Borrowers, we would have had to make contractually required payments under the PEAKS Guarantee in greater amounts. We made Payments on Behalf of Borrowers after assessing:

the likelihood of us being contractually required to make payments under the PEAKS Guarantee in the near future;

the effect on our liquidity that would result from making payments under the PEAKS Guarantee compared to making Payments on Behalf of Borrowers;

the effect that Payments on Behalf of Borrowers may have on the funds available to the PEAKS Trust to repay the Subordinated Note to us following full payment of the PEAKS Trust's other obligations; and

the fact that we will not be able to recover Payments on Behalf of Borrowers from the PEAKS Trust or the student borrowers on whose behalf we made those payments.

Payments on Behalf of Borrowers assisted in:

maintaining the Asset/Liability Ratio at the required level; and

satisfying the following month's required payment of interest on the PEAKS Senior Debt and administrative fees and expenses of the PEAKS Trust.

Prior to the PEAKS Consolidation, Payments on Behalf of Borrowers were reflected on our consolidated financial statements as a reduction to our contingent liability. Following the PEAKS Consolidation, Payments on Behalf of Borrowers were not reflected on our consolidated financial statements, since those payments were intercompany transactions, which were eliminated from our consolidated financial statements as a result of the PEAKS Consolidation.

In January 2014, we made Payments on Behalf of Borrowers of \$1,832. We entered into a letter agreement, dated as of March 17, 2014, with the trustee under the PEAKS Program and the holders of the PEAKS Senior Debt (the PEAKS Letter Agreement), in order to resolve differing interpretations of the permissibility of the Payments on Behalf of Borrowers under the PEAKS Program documents. Pursuant to the PEAKS Letter Agreement, the trustee agreed to waive, and the holders of the PEAKS Senior Debt consented to the waiver of, any:

breach of the PEAKS Program documents caused by us making Payments on Behalf of Borrowers, including any failure to make payments under the PEAKS Guarantee as a result thereof ; and

event of default under the PEAKS Program documents that may have arisen or resulted by us making Payments on Behalf of Borrowers.

In the PEAKS Letter Agreement, we agreed that, after the date of the PEAKS Letter Agreement, we would not make any further payments of any kind on behalf of any borrower in respect of a private education loan made under the PEAKS Program, and that any such payments in lieu of making payments to maintain the applicable required Asset/Liability Ratio would constitute a breach of the terms of the PEAKS Guarantee and an event of default under the indenture and credit agreement for the PEAKS Program. In accordance with the terms of the PEAKS Letter Agreement, we paid \$40,000 on March 20, 2014, which is considered to be a payment under the PEAKS Guarantee and was applied primarily to make a mandatory prepayment of the PEAKS Senior Debt.

PEAKS Guarantee Payments and Payments on Behalf of Borrowers. The following table sets forth the PEAKS Guarantee payments and Payments on Behalf of Borrowers that were made in the periods indicated:

Type of Payment	Year Ended December 31,	
	2015	2014
PEAKS Guarantee	\$ 30,090	\$ 159,255
Payments on Behalf of Borrowers	0	1,832
Total	\$ 30,090	\$ 161,087

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CUSO Program. On February 20, 2009, we entered into agreements with the CUSO to create the CUSO Program. Under the CUSO Program, an unrelated lender originated private education loans to our eligible students and, subsequently, sold those loans to the CUSO. The CUSO purchased the private education loans from the lender utilizing funds received from its owners in exchange for participation interests in the private education loans acquired by the CUSO. The lender disbursed the proceeds of the private education loans to us for application to the students account balances with us that represented their unpaid education costs. No new private education loans were or will be originated under the CUSO Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through June 2012.

In connection with the CUSO Program, we entered into the CUSO RSA with the CUSO. Under the CUSO RSA, we guarantee the repayment of any private education loans that are charged off above a certain percentage of the private education loans made under the CUSO Program, based on the annual dollar volume. Under the CUSO RSA, we have an obligation to make the monthly payments due and unpaid on those private education loans that have been charged off above a certain percentage (Regular Payments). Instead of making Regular Payments, however, we may elect to discharge our obligations to make Regular Payments on specified charged-off private education loans by:

paying the then outstanding balance (plus accrued and unpaid interest) of those private education loans that have been charged off above a certain percentage and, with respect to which, an amount equal to at least ten monthly payments has been paid; or

paying the then outstanding balance (plus accrued and unpaid interest) of those private education loans that have been charged off above a certain percentage and, with respect to which, an amount equal to at least ten monthly payments has not been paid, plus any interest that would otherwise have been payable until ten monthly payments had been made, discounted at the rate of 10% per annum

(collectively, Discharge Payments).

See Note 15 Commitments and Contingencies, for a further discussion of our obligations to make guarantee payments pursuant to the CUSO RSA.

Assets and Liabilities of the CUSO. We concluded that we became the primary beneficiary of the CUSO on September 30, 2014 and, therefore, were required to consolidate the CUSO in our consolidated financial statements. In accordance with ASC 810, the consolidation of the CUSO was treated as an acquisition of assets and liabilities and, therefore, the assets and liabilities of the CUSO were included in our consolidated financial statements at their fair value as of September 30, 2014.

We recorded the CUSO Secured Borrowing Obligation at the time of the CUSO Consolidation. The CUSO Secured Borrowing Obligation represents the estimated amount that the CUSO owes to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the CUSO RSA.

In accordance with ASC 810, we included the CUSO Secured Borrowing Obligation on our Consolidated Balance Sheet at its fair value as of September 30, 2014, the date of the CUSO Consolidation. The difference between the estimated fair value of the CUSO Secured Borrowing Obligation and the amount expected to be paid by the CUSO to the CUSO Participants was recorded as an accrued discount on our Consolidated Balance Sheet at the date of the

CUSO Consolidation. The accrued discount is being recognized in interest expense at a level rate of return over the expected life of the CUSO Secured Borrowing Obligation.

The expected life of the CUSO Secured Borrowing Obligation is an estimate of the period of time over which payments are expected to be made by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans. The period of time over which payments are expected to be made by the CUSO to the CUSO Participants is based upon when the CUSO Student Loans enter a repayment status and the period of time they remain in a repayment status. Since all of the CUSO Student Loans have not entered repayment, and those loans that have entered a repayment status may be granted forbearances or deferments, the period of time over which payments are expected to be made to the CUSO Participants is an estimate. The assumptions used to estimate the expected life of the CUSO Secured Borrowing Obligation are reviewed periodically and updated accordingly, which may result in an adjustment to the expected life of the CUSO Secured Borrowing Obligation and the related recognized interest expense.

The following table sets forth the fair value of the assets and liabilities of the CUSO as of September 30, 2014 that were included on our Consolidated Balance Sheet on that date:

	As of September 30, 2014	
	Assets	Liabilities
Restricted cash	\$ 2,738	
Current portion of CUSO Student Loans	3,406	
CUSO Student Loans, excluding current portion	23,793	
Other assets	199	
Current portion of CUSO Secured Borrowing Obligation		\$ 20,662
Other current liabilities		624
CUSO Secured Borrowing Obligation, excluding current portion		101,880
Other liabilities		1,940
Total	\$ 30,136	\$ 125,106

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The assets of the CUSO can only be used to satisfy the obligations of the CUSO.

The following table sets forth the carrying value of the assets and liabilities related to the CUSO Program as of September 30, 2014 that we eliminated from our Consolidated Balance Sheet when we consolidated the CUSO in our consolidated financial statements, and the line items within which those assets and liabilities were included:

	As of September 30, 2014	
	Assets	Liabilities
Prepaid expenses and other current assets	\$ 3,260	
Other current liabilities		\$ 23,887
Other liabilities		90,974
Total	\$ 3,260	\$ 114,861

Upon the CUSO Consolidation, we recorded the CUSO's assets and liabilities at their fair value in our consolidated financial statements and we eliminated the carrying value of the assets and liabilities related to the CUSO Program that had been recorded in our consolidated financial statements as of September 30, 2014. The fair value of the CUSO's liabilities exceeded the fair value of the CUSO's assets as of September 30, 2014 by \$94,970. As of September 30, 2014, the carrying value of the liabilities related to the CUSO Program that had been recorded in our consolidated financial statements exceeded the carrying value of the assets related to the CUSO Program that had been recorded in our consolidated financial statements by \$111,601. As a result, we recognized a total gain of \$16,631 in our Consolidated Statements of Operations for the year ended December 31, 2014, which represented the difference between (i) the fair value of the net liabilities of the CUSO that we recorded upon the CUSO Consolidation, and (ii) the carrying value of the net liabilities related to the CUSO Program that had been recorded in our consolidated financial statements and were eliminated upon the CUSO Consolidation, in each case, as of September 30, 2014.

The following table sets forth the carrying values of assets and liabilities of the CUSO that were included on our Consolidated Balance Sheets as of the dates indicated:

	As of	
	December 31,	2014
	2015	2014
Assets		
Restricted cash	\$ 3,968	\$ 2,517
Current portion of CUSO Student Loans	2,734	3,415
CUSO Student Loans, excluding current portion, less allowance for loan losses of \$1,796 and \$2,039	16,174	20,390
Other assets	257	284
Total assets	\$ 23,133	\$ 26,606
Liabilities		
Current portion of CUSO Secured Borrowing Obligation	\$ 23,591	\$ 20,813
Other current liabilities	154	179

CUSO Secured Borrowing Obligation, excluding current portion	91,728	101,267
Total liabilities	\$ 115,473	\$ 122,259

The assets of the CUSO can only be used to satisfy the obligations of the CUSO. Other liabilities of \$1,073 of the CUSO that were reported as of December 31, 2014 have been reclassified and included in the line items CUSO Secured Borrowing Obligation to conform to the current year presentation.

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Revenue and Expenses of the CUSO. The following table sets forth the revenue and expenses of the CUSO, excluding the gain on consolidation of the CUSO, which were included in our Consolidated Statement of Operations for the period indicated:

	Year Ended December 31,	
	2015	2014
Revenue	\$ 4,580	\$ 1,136
Student services and administrative expenses	1,670	437
Provision for private education loan losses, net	(1,436)	2,039
Interest expense	13,996	3,725
(Loss) before provision for income taxes	\$ (9,650)	\$ (5,065)

The revenue of the CUSO consists of interest income on the CUSO Student Loans, which is the accretion of the accretable yield on the CUSO Student Loans, and an administrative fee paid by the CUSO Participants to the CUSO on a monthly basis. The servicing, administrative and other fees incurred by the CUSO are included in Student services and administrative expenses in our Consolidated Statements of Operations. The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period, offset by recoveries received from private education loans that were charged off prior to the CUSO Consolidation. The allowance for loan losses represents the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the CUSO Student Loans, discounted by the loan pool's effective interest rate as of the end of the reporting period. Interest expense of the CUSO represents interest expense on the CUSO Secured Borrowing Obligation, which includes the contractual interest obligation on the CUSO Student Loans and the accretion of the discount on the CUSO Secured Borrowing Obligation.

CUSO RSA Payments, Recoveries and Offsets. Pursuant to the CUSO RSA, we are entitled to all amounts that the CUSO recovers from loans in a particular loan pool made under the CUSO Program that have been charged off, until all payments that we made under the CUSO RSA with respect to that loan pool have been repaid to us by the CUSO. We have the right to offset payment amounts that we owe under the CUSO RSA by the amount of recoveries from charged-off loans made under the CUSO Program that are owed, but have not been paid, to us. We exercised this offset right in the years ended December 31, 2015 and 2014.

In June 2015, we entered into an amendment to the CUSO RSA that, among other things, allowed us to defer the payments due in June 2015 through December 2015 under the CUSO RSA to January 2016. See Note 15 Commitments and Contingencies for a discussion of this amendment. In accordance with the provisions of this amendment, we deferred the payments due in June 2015 through December 2015 under the CUSO RSA, which totaled approximately \$6,092. We utilized the amount of the recoveries of charged-off loans received by the CUSO between June 2015 and December 2015 that were due but were not paid to us to offset against amounts that we owed under the CUSO RSA in January 2016. The amount of recoveries of charged-off loans received by the CUSO between June 2015 and December 31, 2015 that were due but were not paid to us totaled \$761.

The following table sets forth the payments that we made to the CUSO related to our guarantee obligations under the CUSO RSA and the amount of recoveries from charged-off loans paid to us by the CUSO in the periods indicated:

	Year Ended December 31,	
	2015	2014
Regular Payments	\$ 3,840 ⁽¹⁾	\$ 6,562 ⁽²⁾⁽³⁾
Discharge Payments	9,253	2,577
	\$ 13,093	\$ 9,139

- (1) This amount is net of \$521 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA. In addition, we deferred payment of \$6,092 of Regular Payments, that otherwise would have been due between June 8, 2015 and December 31, 2015, to January 2016. We also utilized the amount of recoveries of charged-off loans received by the CUSO during this period that were not paid to us, which totaled \$761, to offset against amounts that we owed under the CUSO RSA in January 2016.
- (2) This amount is net of \$466 of recoveries from charged-off loans owed to us that we offset against the amount we owed under the CUSO RSA.
- (3) Of this amount, \$4,556 was paid prior to the CUSO Consolidation.

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Excluding the recoveries of charged-off loans received by the CUSO between June 2015 and December 2015, the CUSO did not remit to us, and we did not offset payments under the CUSO RSA for, the following amounts of recoveries from charged-off loans that were owed to us:

\$0 in the fiscal year ended December 31, 2015; and

\$475 in the fiscal year ended December 31, 2014.

The amount of recoveries from charged-off loans that were owed to us by the CUSO, but not paid or offset, as of December 31, 2014 were not recorded in our consolidated financial statements, since those amounts were intercompany transactions that were eliminated from our financial statements as a result of the CUSO Consolidation. See Note 15 Commitments and Contingencies, for a further discussion of the offsets and CUSO RSA.

We made advances to the CUSO under the Revolving Note in years prior to 2012. We made the advances so that the CUSO could use those funds primarily to provide additional funding to the CUSO to purchase additional private education loans made under the CUSO Program. The period of time during which we could make additional advances under the Revolving Note ended on January 1, 2014. Certain of the assets of the CUSO serve as collateral for the Revolving Note. The Revolving Note bears interest, is subject to customary terms and conditions and is currently due and payable in full. In 2013, we offset \$8,472 owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note, instead of making additional payments in that amount. We did not offset any amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note, in the years ended December 31, 2015 and 2014. See Note 15 Commitments and Contingencies for a further discussion of the offset.

The amount owed to us under the Revolving Note, excluding those offsets, was approximately \$8,300 as of December 31, 2015 and \$8,200 as of December 31, 2014. The amount of the Revolving Note was eliminated from our consolidated financial statements as a result of the CUSO Consolidation.

9. Private Education Loans

We concluded that we were required to consolidate the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013 and to consolidate the CUSO in our consolidated financial statements beginning on September 30, 2014. See Note 8 Variable Interest Entities, for a further discussion of the consolidation of the PEAKS Trust and the CUSO (the Consolidated VIEs). As a result, the assets and liabilities of the Consolidated VIEs were included on our Consolidated Balance Sheets as of December 31, 2015 and 2014.

As of December 31, 2015, the aggregate carrying amount of the Private Education Loans included in the Private education loan line items on our Consolidated Balance Sheet was \$70,641 and as of December 31, 2014 was \$90,876. The outstanding principal balance of the Private Education Loans, including accrued interest, was approximately \$114,346 as of December 31, 2015 and \$184,710 as of December 31, 2014.

Initial Measurement. A significant number of the Private Education Loans were determined to be credit impaired upon consolidation. Loans determined to be credit impaired upon consolidation or acquisition (Purchased Credit Impaired Loans or PCI Loans), are initially measured at fair value in accordance with ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). A loan is considered a PCI Loan, if it has

evidence of deteriorated credit quality following the loan's origination date. As a result, at the date of consolidation or acquisition, it is probable that all contractually required payments under a PCI Loan will not be collected.

The Private Education Loans that did not individually have evidence of deteriorated credit quality at the time of consolidation were also initially measured at fair value and are accounted for in accordance with ASC 310-30. We believe that following the guidance of ASC 310-30 by analogy with respect to those loans provides the most reasonable presentation of the value of those loans, primarily due to:

the evidence of deteriorated credit quality of a significant number of the Private Education Loans; and

the probability that all contractually required payments with respect to those loans will not be collected.

All of the Private Education Loans are, therefore, considered to be, and reported as, PCI Loans.

This accounting treatment is consistent with the AICPA December 18, 2009 Confirmation Letter, in which the AICPA summarized the SEC staff's view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. In this letter, the AICPA states that it understands that the SEC staff will not object to an accounting policy based on contractual or expected cash flow. We believe that following ASC 310-30 by analogy with respect to the Private Education Loans that did not individually have evidence of deteriorated credit quality at the time of consolidation is an appropriate application of the accounting guidance to determine the initial measurement of the value of those loans.

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Aggregation of Loans. PCI Loans recognized upon consolidation or acquisition in the same fiscal quarter may be aggregated into one or more pools, provided that the PCI Loans in each pool have common risk characteristics. The Private Education Loans were considered to be PCI Loans upon consolidation. As of the date of the PEAKS Consolidation or CUSO Consolidation, as applicable, we aggregated the PEAKS Trust Student Loans into 24 separate pools of loans and the CUSO Student Loans into 48 separate pools of loans, based on common risk characteristics of the loans, which included:

the fiscal quarter in which the Private Education Loan was purchased by the PEAKS Trust or the CUSO; and

the consumer credit score of the borrower.

PCI Loans that do not have evidence of deteriorated credit quality are not aggregated in the same pools with PCI Loans that have evidence of deteriorated credit quality. The same aggregation criteria, however, were used to determine those loan pools. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Estimated Fair Value, Accretable Yield and Expected Cash Flows. The Private Education Loans were recorded at their estimated fair value upon consolidation. The estimated fair value of the PEAKS Trust Student Loans as of February 28, 2013 and the CUSO Student Loans as of September 30, 2014 was determined using an expected cash flow methodology. Projected default rates and forbearances were considered in applying the estimated cash flow methodology. Prepayments of loans were not considered when estimating the expected cash flows, because, historically, few Private Education Loans have been prepaid. No allowance for loan loss was established as of the date of consolidation of the PEAKS Trust and the CUSO, because all of the Private Education Loans were recorded at fair value and future credit losses are considered in the estimate of fair value.

The excess of any cash flows expected to be collected with respect to a loan pool of the Private Education Loans over the carrying value of the loan pool is referred to as the accretable yield. The accretable yield is accreted and included as interest income using the effective interest method, which is at a level rate of return over the remaining estimated life of the loan pool.

The following table sets forth the estimated fair value, accretable yield and expected cash flows for the PEAKS Trust Student Loans and the CUSO Student Loans, in total and for those loans pursuant to which ASC 310-30 was applied by analogy, as of the dates indicated:

	PEAKS Trust Student Loans		CUSO Student Loans	
	As of February 28, 2013		As of September 30, 2014	
	ASC 310-30 Applied By		ASC 310-30 Applied By	
	Total	Analogy	Total	Analogy
Estimated fair value	\$ 112,116	\$ 60,177	\$ 27,199	\$ 12,799

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Accretable yield	\$ 100,953	\$ 58,843	\$ 12,498	\$ 5,651
Expected cash flows	\$ 213,069	\$ 119,020	\$ 39,697	\$ 18,450

The following tables set forth information regarding aggregate changes in accretable yield of the loan pools of the PEAKS Trust Student Loans, in total, and for those loans pursuant to which ASC 310-30 was applied by analogy, for the periods indicated:

	Year Ended December 31, 2015	
	ASC 310-30	
	Applied	
	By	
	Total	Analogy
Balance as of January 1	\$ 51,819	\$ 32,654
Accretion	(8,702)	(4,962)
Reclassification from nonaccretable difference and changes in expected cash flows	(8,133)	(8,379)
Balance as of December 31	\$ 34,984	\$ 19,313

	Year Ended December 31, 2014	
	ASC 310-30	
	Applied	
	By	
	Total	Analogy
Balance as of January 1	\$ 70,580	\$ 42,274
Accretion	(11,471)	(6,700)
Reclassification from nonaccretable difference and changes in expected cash flows	(7,290)	(2,920)
Balance as of December 31	\$ 51,819	\$ 32,654

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The following tables set forth information regarding aggregate changes in accretable yield of the loan pools of the CUSO Student Loans, in total, and for those loans pursuant to which ASC 310-30 was applied by analogy, for the periods indicated:

	Year Ended December 31, 2015	
	ASC 310-30 Applied By Analogy	
	Total	Analogy
Balance as of January 1	\$ 11,728	\$ 5,857
Accretion	(2,902)	(1,654)
Reclassification from nonaccretable difference and changes in expected cash flows	3,967	3,408
Balance as of December 31	\$ 12,793	\$ 7,611

	Year Ended December 31, 2014	
	ASC 310-30 Applied By Analogy	
	Total	Analogy
Balance as of January 1	\$ 0	\$ 0
Additions resulting from the CUSO Consolidation	12,498	5,651
Accretion	(699)	(333)
Reclassification from nonaccretable difference and changes in expected cash flows	(71)	539
Balance as of December 31	\$ 11,728	\$ 5,857

Contractually Required Payments. The excess of the contractually required payments of the Private Education Loans over the expected cash flows is referred to as the nonaccretable difference. The following table sets forth the contractually required future principal and interest payments, expected cash flows and the nonaccretable difference, in total and for those loans pursuant to which ASC 310-30 was applied by analogy for the PEAKS Trust Student Loans and the CUSO Student Loans, as of the dates indicated:

PEAKS Trust Student Loans		CUSO Student Loans	
As of February 28, 2013		As of September 30, 2014	
Total	ASC 310-30 Applied	Total	ASC 310-30 Applied

		By Analogy		By Analogy
Contractual future principal and interest payments	\$ 487,800	\$ 213,600	\$ 111,159	\$ 36,715
Expected cash flows	213,069	119,020	39,697	18,450
Nonaccretable difference	\$ 274,731	\$ 94,580	\$ 71,462	\$ 18,265

Allowance for Private Education Loan Losses. On a quarterly basis subsequent to the PEAKS Consolidation and the CUSO Consolidation, as applicable, we estimate the principal and interest expected to be collected over the remaining life of each loan pool. These estimates include assumptions regarding default rates, forbearances and other factors that reflect then-current market conditions. Prepayments of loans were not considered when estimating the expected cash flows, because, historically, few Private Education Loans have been prepaid.

If a decrease in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be less than the expected cash flows at the end of the previous fiscal quarter, we would record the impairment as:

a provision for private education loan losses in our Consolidated Statement of Operations; and

an increase in the allowance for loan losses on our Consolidated Balance Sheets.

The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool, discounted by the loan pool's effective interest rate at the end of the previous fiscal quarter. If a significant increase in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be greater than the expected cash flows at the end of the previous fiscal quarter, we would:

first reverse any allowance for loan losses with respect to that loan pool that was previously recorded on our Consolidated Balance Sheet, up to the amount of that allowance; and

record any remaining increase prospectively as a yield adjustment over the remaining estimated lives of the loans in the loan pool.

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The following table sets forth information regarding changes in the allowance for loan losses of the loan pools of the PEAKS Trust Student Loans in the aggregate for the periods indicated:

	Year Ended December 31,	
	2015	2014
Balance at beginning of period	\$ 42,353	\$ 29,349
Loans charged off	(29,334)	(1,199)
Recoveries from charged off loans	2,278	2,092
Provision for loan losses	6,519	12,111
Balance at end of period	\$ 21,816	\$ 42,353

The following table sets forth information regarding changes in the allowance for loan losses of the loan pools of the CUSO Student Loans in the aggregate for the period indicated:

	Year Ended December 31,	
	2015	2014
Balance at beginning of period	\$ 2,039	\$ 0
Loans charged off	0	0
Recoveries from charged off loans	0	0
Provision for loan losses	(243) ⁽¹⁾	2,039
Balance at end of period	\$ 1,796	\$ 2,039

- (1) The provision for loan losses was reduced by \$1,193 for recoveries from CUSO Student Loans that were not recognized on our Consolidated Balance Sheet at the time of the CUSO Consolidation.

Adjustments to the interest income of a loan pool are recognized prospectively, if those adjustments are due to:

changes in variable interest rates; or

any other changes in the timing of the expected cash flows of the loan pools.

Loan Modifications and Charge Offs. Modifications were made to PCI Loans in the fiscal years ended December 31, 2015 and 2014 and were primarily due to forbearances granted with respect to the payment of those loans. We consider the impact of any modifications made to PCI Loans as part of our quarterly assessment of whether:

a probable and significant change in the expected cash flows of the PCI Loans has occurred; and

the loans should continue to be accounted for and reported as PCI loans.

In evaluating the impact of modifications made to PCI Loans on the expected cash flows of those loans, we consider the effect of any foregone interest and the potential for future default. These default estimates are used to calculate expected credit losses with respect to each loan pool. In developing these probabilities of default estimates, we considered the relationship between the credit quality characteristics of the loans in the loan pool and certain assumptions based on the performance history of the Private Education Loans and industry data related to the severity and recovery lag of defaults applicable to private education loans. Loans for which Payments on Behalf of Borrowers were made were assumed to be defaulted loans in our default estimates.

The charge off of a PCI Loan results in the removal of that loan from the underlying PCI Loan pool and reduces the loan pool discount. If the discount for principal losses for a particular PCI Loan pool has been fully depleted, the charge off of a PCI Loan will reduce the PCI Loan pool's allowance for loan losses. Removal of a PCI Loan from the underlying PCI Loan Pool does not change the effective yield of the PCI Loan Pool.

10. Property and Equipment

The following table sets forth our property and equipment, net, as of the dates indicated:

	As of December 31,	
	2015	2014
Furniture and equipment	\$ 156,346	\$ 161,994
Buildings and building improvements	134,440	135,241
Land and land improvements	39,007	39,609
Leasehold improvements	39,510	35,738
Software	7,974	8,263
Construction in progress	1,345	766
	\$ 378,622	\$ 381,611
Less: Accumulated depreciation and amortization	(236,458)	(224,539)
Property and equipment, net	\$ 142,164	\$ 157,072

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Software includes purchased and internally developed software.

In the fourth quarter of 2015, we decided to sell one of our buildings. As of December 31, 2015, the carrying value of the building that we considered held-for-sale was \$2,351, and was included in Prepaid expenses and other current assets on our Consolidated Balance Sheet. The carrying value of the building was approximately equal to the estimated fair value, less selling costs. We expect to complete the sale of the building within the 12 months immediately following December 31, 2015.

The following table sets forth the depreciation and amortization expense for the assets listed above in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Depreciation and amortization expense	\$ 21,093	\$ 25,603	\$ 27,007

11. Goodwill and Other Intangibles

We recognized goodwill and certain other intangible assets on our Consolidated Balance Sheet as a result of the acquisition of:

certain assets and liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. on January 31, 2014;

the membership interests of Cable Holdings, Inc. on August 1, 2013; and

all the assets and certain liabilities of Daniel Webster College on June 10, 2009.

The acquired intangible assets consist of certain identifiable intangible assets that are amortized over the asset's estimated life, and other indefinite-lived intangible assets, including goodwill. Goodwill represents the excess of the consideration paid over the estimated fair value of identifiable net assets acquired.

The following tables set forth the carrying value of our acquired intangible assets that are included in Other assets on our Consolidated Balance Sheets as of the dates indicated:

	As of December 31, 2015			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Amortization Period (months)
Amortizable intangible assets:				
Customer relationships	\$ 2,500	\$ (1,078)	\$ 1,422	60
Non-compete agreements	1,120	(504)	616	60

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Training materials	440	(304)	136	42
Accreditation	210	(195)	15	84
	\$ 4,270	\$ (2,081)	\$ 2,189	

As of December 31, 2014

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Amortization Period (months)
Amortizable intangible assets:				
Customer relationships	\$ 2,500	\$ (578)	\$ 1,922	60
Non-compete agreements	1,120	(280)	840	60
Training materials	440	(178)	262	42
Accreditation	210	(165)	45	84
	\$ 4,270	\$ (1,201)	\$ 3,069	

All amortizable intangible assets are being amortized on a straight-line basis. Amortization expense for amortized intangible assets was:

\$880 in the year ended December 31, 2015;

\$851 in the year ended December 31, 2014; and

\$245 in the year ended December 31, 2013.

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The following table sets forth our estimate of the amortization expense for our amortizable intangible assets in each of the next four fiscal years:

Fiscal Year Ending December 31,	Estimated Amortization Expense
2016	\$ 865
2017	734
2018	562
2019	28
	\$ 2,189

The following tables set forth the carrying value of our indefinite-lived intangible assets that are included in Other assets on our Consolidated Balance Sheets as of the dates indicated:

	As of December 31, 2015		
	Gross Carrying Value	Accumulated Impairment Loss	Net Carrying Value
Indefinite-lived intangible assets:			
Goodwill	\$ 7,247	\$ (7,247)	\$ 0
Trademark	660	(410)	250
	\$ 7,907	\$ (7,657)	\$ 250

	As of December 31, 2014		
	Gross Carrying Value	Accumulated Impairment Loss	Net Carrying Value
Indefinite-lived intangible assets:			
Goodwill	\$ 7,290	\$ (2,044)	\$ 5,246
Trademark	660	(410)	250
	\$ 7,950	\$ (2,454)	\$ 5,496

Indefinite-lived intangible assets include trademarks and goodwill, which are not amortized, since there are no legal, regulatory, contractual, economic or other factors that limit the useful life of those intangible assets by us.

Intangible assets that are not subject to amortization are required to be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. We perform our impairment evaluation annually, during the fourth quarter, or more frequently if facts and circumstances warrant. All of our goodwill relates to one reporting unit, which is defined as one level below an operating segment.

In addition to our annual impairment test, we consider certain triggering events when evaluating whether an interim impairment analysis is warranted. Among these is a significant long-term decrease in our market capitalization based on events specific to our operations. Deteriorating operating results and current period and projected future operating results that negatively differ from the operating plans used in the most recent impairment analysis are also triggering events that could be cause for an interim impairment review. In our analysis of triggering events we also consider changes in the accreditation, regulatory or legal environment; increased competition; innovation changes; and changes in the market acceptance of our educational programs and the graduates of those programs, among other factors.

In the third quarter of 2015, we performed an interim impairment analysis of the goodwill associated with the acquisition of Cable Holdings and the Ascolta business (CPD Goodwill) because we believed that certain events indicated that the CPD Goodwill may have been impaired. While CPD s revenue improved sequentially in the second and third quarters of 2015, the revenue projections as of the end of the third quarter of 2015 were lower than the revenue projections used in our 2014 annual impairment analysis performed in the fourth quarter of 2014. Using these updated projections, we performed an evaluation and, based on the work performed, we concluded that an impairment charge of \$5,203 could be reasonably estimated. Therefore, we recorded a \$5,203 charge for the impairment of the CPD Goodwill in the third quarter 2015, which was our preliminary estimate of the goodwill impairment. We completed our analysis of the CPD Goodwill impairment in the fourth quarter of 2015 and concluded that we did not need to adjust our preliminary impairment estimate. As of December 31, 2015, the carrying value of the CPD Goodwill was \$0.

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To calculate the amount of the goodwill impairment charge, we estimated the fair value of the CPD reporting unit using a discounted cash flow method. This approach calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. In applying this methodology to calculate the fair value of the reporting unit, we used assumptions about future revenue and costs. In addition, the application of the discounted cash flow method requires judgment in determining a risk-adjusted discount rate. We considered the report of a third-party valuation firm in determining the risk-adjusted discount rate used for the valuation. The estimated fair value of the reporting unit was allocated to all of its assets and liabilities, including certain unrecognized intangible assets, in order to determine the implied fair value of the CPD Goodwill. This allocation process required judgment and the use of additional valuation assumptions in determining the individual fair values of the assets and liabilities of the reporting unit.

The assumptions and estimates underlying the fair value calculations used in our interim and annual impairment tests are uncertain by their nature and can vary significantly from actual results. Therefore, as circumstances and assumptions change, we may be required to recognize additional impairment charges for other intangible assets in future periods.

12. Debt

As of December 31, 2015, our Consolidated Balance Sheet included: (i) outstanding borrowings under the Term Loans (as defined below), as described further below under *Term Loans*, (ii) the PEAKS Senior Debt issued by the PEAKS Trust, which was consolidated in our consolidated financial statements beginning February 28, 2013, as described further below under *PEAKS Trust Senior Debt*, and (iii) the CUSO Secured Borrowing Obligation of the CUSO, which was consolidated in our consolidated financial statements beginning September 30, 2014, as described further in Note 8 – Variable Interest Entities.

Term Loans. On December 4, 2014, we and certain of our subsidiaries entered into a financing agreement (the Original Financing Agreement) with Cerberus Business Finance, LLC (Cerberus), as administrative agent and collateral agent, and the lenders party thereto. Under the Original Financing Agreement, we borrowed \$100,000 aggregate principal amount of senior secured term loans (the Term Loans).

On December 23, 2014, we entered into Amendment No. 1 to Financing Agreement (Amendment No. 1), on March 17, 2015, we entered into Amendment No. 2 to Financing Agreement (Amendment No. 2), on May 26, 2015, we entered into a Limited Consent to Financing Agreement (the FA Consent), on September 18, 2015, we entered into Amendment No. 3 to Financing Agreement (Amendment No. 3), on December 31, 2015, we entered into Amendment No. 4 to Financing Agreement (Amendment No. 4), and on March 10, 2016, we entered into a Limited Waiver (Waiver). The Original Financing Agreement, as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3 and Amendment No. 4 and including the FA Consent and Waiver, is referred to herein as the Financing Agreement.

Amendment No. 1 made modifications to the Original Financing Agreement to extend the time by which we were required to establish certain cash management accounts. Amendment No. 2 provided:

for an amendment to the limitation on the aggregate amount of payments that we can make related to the PEAKS Program and the CUSO Program in any fiscal year after 2014, modifying it from \$20,000 per program in each year to \$45,000 under both programs in 2015 and \$35,000 under both programs in any year after 2015 that the Financing Agreement is still in effect;

that our consolidated financial statements (and related certificates) as of and for the fiscal year ended December 31, 2014 did not have to be furnished by us to the lenders until May 31, 2015; and

for an amendment to the definition of Fixed Charge Coverage Ratio (as defined in the Financing Agreement) to provide that, for purposes of calculating the Fixed Charge Coverage Ratio for any period that includes the fiscal quarter ended December 31, 2014, the amount of payments made during that fiscal quarter in respect of the PEAKS Program would be deemed to have been \$5,000.

The FA Consent provided that our consolidated financial statements (and related certificates) as of and for the fiscal quarter ended March 31, 2015 did not have to be furnished by us to the lenders until June 15, 2015.

Amendment No. 3 provided for an amendment to the provision requiring us to prepay the outstanding principal of the Term Loans outstanding under the Financing Agreement in an amount equal to 100% of the Net Cash Proceeds (as defined in the Financing Agreement) received in connection with any Extraordinary Receipts (as defined in the Financing Agreement), modifying it to include two limited exceptions thereto which provide that:

we are only required to prepay the Term Loans in an aggregate amount of 66 2/3% of the federal income tax refund received by us as a result of us filing to carry back to a prior year the net taxable operating loss reported on our federal income tax return for the year ended December 31, 2014; and

we are not required to prepay the Term Loans with cash received from individual tax refunds to the extent that the amount of any such refund is less than \$100.

We reported a net operating loss on our federal income tax return for the year ended December 31, 2014, and received a federal income tax refund in the amount of \$18,218 in connection with a claim to carry back our 2014 net operating loss to the tax year ended December 31, 2012. Pursuant to Amendment No. 3, we made a prepayment of the Term Loans in the amount of \$12,145 in the fourth quarter of 2015.

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Amendment No. 4 modified certain definitions, covenant requirements and scheduled payments under the Financing Agreement. Amendment No. 4:

modified the definition of Excess Cash Flow in the Financing Agreement to exclude special legal, accounting and similar charges from the calculation of Excess Cash Flow;

established a minimum amount of \$9,000 to be paid in 2016 pursuant to the mandatory prepayment provision based on Excess Cash Flow;

modified the Leverage Ratio (as defined in the Financing Agreement) covenant requirement as of September 30, 2016 from 1.50:1.00 to 1.75:1.00;

adjusted the definition of the Fixed Charge Coverage Ratio to exclude certain mandatory prepayments;

revised the scheduled quarterly installment principal payment amounts and dates in 2016 from \$5,000 per quarter to: \$10,000 on March 1, 2016; \$15,500 on June 30, 2016; \$15,500 on September 30, 2016; and \$20,000 on December 31, 2016; and

added additional definitions and amended certain other provisions as necessary to reflect the replacement of the ED Letter of Credit with the ED Agreement.

As a condition for Amendment No. 4, on December 31, 2015 we made a prepayment of \$7,174 of outstanding principal of the Term Loans, with no prepayment premium required. This was the approximate amount of the difference between the amount of the collateral held related to the ED Letter of Credit and the amount being held as ED Escrowed Funds. We entered into Amendment No. 4 in order to establish Leverage Ratio and Fixed Charge Covenant Ratio requirements that, based on our current estimates, we believe we would be in compliance with in 2016 and to schedule mandatory principal payments on certain dates and of certain amounts based on our estimated cash balances, which we might have otherwise been required to make voluntarily in order to maintain compliance with those covenants. If such payments were made voluntarily, we would have been required to make a Premium Payment (defined below).

Pursuant to the Waiver we entered into on March 10, 2016, the agents and the lenders under the Financing Agreement agreed to waive any default or event of default that may have occurred and is continuing, or may occur, under the Financing Agreement or related loan documents as a result of the Restatements (as defined below), as long as we deliver to the agents and lenders our restated financial statements by March 31, 2016.

We believe that we will make payments of approximately \$11,700 under the PEAKS Guarantee and approximately \$16,000, net of approximately \$1,800 in recoveries, under the CUSO RSA in 2016. The Financing Agreement limits the aggregate amount of payments that we could make related to the PEAKS Guarantee and the CUSO RSA to \$35,000 under both programs in any year after 2015 that the Financing Agreement is in effect. See Note 15 Commitments and Contingencies for a further discussion of our projected payments under the PEAKS Guarantee and CUSO RSA.

A portion of the proceeds of the Term Loans and other funds were used by us on December 4, 2014 to provide approximately \$89,200 in cash collateral for certain letters of credit that were outstanding for our account as of that date, which was in addition to the approximately \$100 of cash collateral we had previously provided related to a letter of credit in September 2014, under the Credit Agreement, dated as of March 21, 2012 (as amended and including consents, the Amended Credit Agreement), among us, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and Wells Fargo, N.A., as documentation agent. A portion of the proceeds of the Term Loans and other funds were used by us on December 4, 2014 to repay all outstanding loans, including accrued interest and fees, owed under the Amended Credit Agreement, in the amount of approximately \$50,400. All commitments of the lenders to lend additional amounts under the Amended Credit Agreement were terminated.

A portion of the proceeds of the Term Loans, as well as other funds, were used for payment of fees in connection with the Financing Agreement. We paid a one-time commitment fee of \$3,000 in the fourth quarter of 2014 in connection with the Financing Agreement. The commitment fee and other costs paid to, or on behalf of, the lender were recorded as debt discount on our Consolidated Balance Sheet. Under the Financing Agreement, we are required to pay a quarterly administration fee to the Administrative Agent of \$25.

The following table sets forth the outstanding principal balance, debt discount and carrying value of the Financing Agreement as of the dates indicated:

	As of December 31,	
	2015	2014
Outstanding principal balance	\$ 69,681	\$ 100,000
Debt discount	(1,160)	(3,651)
Carrying value	\$ 68,521	\$ 96,349

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The outstanding principal balance under the Financing Agreement is expected to be repaid by us as set forth in the following table:

Fiscal Quarter Ending	Scheduled Payments	Excess Cash Flow Payment	Total
March 31, 2016	\$ 10,000	\$ 9,000	\$ 19,000
June 30, 2016	15,500	0	15,500
September 30, 2016	15,500	0	15,500
December 31, 2016	19,681	0	19,681
Total	\$ 60,681	\$ 9,000	\$ 69,681

The Financing Agreement provides for mandatory prepayment of outstanding principal in an amount equal to 50% of Excess Cash Flow calculated based on our financial results for the fiscal years ended December 31, 2015 and 2016. Any mandatory prepayment amounts due under this provision are payable within 90 days of December 31. Based on our Excess Cash Flow for the fiscal year ended December 31, 2015, we expect to make a mandatory prepayment of \$9,000 under the Excess Cash Flow provision in March 2016, which is the minimum required payment pursuant to Amendment No. 4. The Term Loans will mature on December 4, 2017. Assuming the required principal payments are made in accordance with the repayment schedule for the remainder of 2016, however, the outstanding balance of the Term Loans is expected to be \$0 as of December 31, 2016. Based on these repayment expectations, we have classified the entire carrying value of the Term Loans as a current liability on our December 31, 2015 Consolidated Balance Sheet.

The Financing Agreement provides that we must pay a premium on any prepayment of outstanding principal (Premium Payment) that we make during the first two years of the Financing Agreement that is not specifically required under the mandatory prepayment provision. The Premium Payment for any such prepayment of principal is 1.0% of the amount of any prepayment we make from December 5, 2015 through December 4, 2016. We were not required to make any Premium Payments in 2015 and do not expect to make any Premium Payments in 2016.

The Term Loans bear interest, at our option, at:

the higher of (a) the London Interbank Offered Rate (LIBOR) and (b) 1.00%, plus a margin of 8.50%;
or

the highest of (a) 2.00%, (b) the federal funds rate plus 0.50%, (c) LIBOR plus 1.00% and (d) the U.S. Prime Rate, plus a margin of 8.00%.

The effective interest rate on our borrowings under the Financing Agreement was approximately:

14.0% per annum in the year ended December 31, 2015; and

12.0% per annum in the year ended December 31, 2014.

The following table sets forth the total amount of interest expense and fees (including amortization of debt issuance costs and accretion of debt discount) that we recognized on our borrowings under the Financing Agreement in the periods indicated:

	Year Ended December 31,	
	2015	2014
Interest expense and fees	\$ 12,403	\$ 868

The Term Loans are guaranteed by certain of our subsidiaries (the Guarantors and together with us, the Loan Parties) and are secured, subject to certain agreed upon exceptions, by: (i) a first-priority lien on and perfected security interest in substantially all the Loan Parties' assets, including a pledge of the equity of the Guarantors and our other subsidiaries, (ii) a mortgage on the Loan Parties' owned real estate, and (iii) control agreements on certain of the Loan Parties' deposit accounts.

The Financing Agreement contains certain affirmative and negative covenants, including restrictions on the Loan Parties' ability to incur debt and liens, make investments, dispose of assets, pay dividends and make prepayments on existing indebtedness, in each case subject to customary exceptions.

The Financing Agreement requires us to maintain compliance with a Leverage Ratio and a Fixed Charge Coverage Ratio as well as with certain educational regulatory measurements. Compliance with the Leverage Ratio and the Fixed Charge Coverage Ratio is determined on a quarterly basis, covering certain prior periods as described in the Financing Agreement.

The educational regulatory measurements are calculated over different time periods, based on statutory guidelines. The educational regulatory measurements are set forth in the Financing Agreement, and include the following tests:

a minimum composite score of our equity, primary reserve and net income ratios;

our institutions' loan cohort default rates under Title IV Programs of the HEA;

our institutions' compliance with the 90/10 Rule of the HEA;

our compliance with the ED's gainful employment regulations; and

our institutions' student retention rate.

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The Financing Agreement contains certain events of default, including:

the failure by us to pay any amount owed under the Financing Agreement when due;

an inaccuracy in any material respect of the representations or warranties that the Loan Parties made in the Financing Agreement;

a violation of any covenant that the Loan Parties made in the Financing Agreement and the related loan documents;

a default by us under any other material indebtedness owed by us, including without limitation, a failure to pay any amounts due under the PEAKS Guarantee or CUSO RSA;

a change of control of us;

the invalidity of certain liens or guarantees granted or made by the Loan Parties in the Financing Agreement;

the occurrence of certain regulatory events; and

certain bankruptcy or insolvency events affecting the Loan Parties.

If an event of default occurs under the Financing Agreement, the lenders may declare all Term Loans then outstanding to be immediately due and payable in full.

Credit Facility. On March 21, 2012, we entered into a credit agreement (the *Credit Agreement*) that provided for a \$325,000 senior revolving credit facility. We entered into amendments to the Credit Agreement on March 31, 2014, May 29, 2014, June 30, 2014, July 30, 2014 and September 15, 2014. We entered into a Consent to Credit Agreement effective October 15, 2014 and a Consent to Credit Agreement, as of November 14, 2014 (collectively, the *Consents*). The Credit Agreement, as so amended and including Consents, is referred to herein as the *Amended Credit Agreement*. The Amended Credit Agreement had a maturity date of March 21, 2015. On December 4, 2014, we used a portion of the proceeds of the Term Loans and other funds to repay all outstanding borrowings under the Amended Credit Agreement, and all commitments of the lenders thereunder to make revolving loans, to issue or participate in new letters of credit, and to amend, renew, or extend letters of credit outstanding under the Amended Credit Agreement were terminated.

We caused the ED Letter of Credit in the amount of \$79,708 to be issued on October 31, 2014, which was issued pursuant to the Amended Credit Agreement and remained outstanding through December 22, 2015. As of December 31, 2015, no letters of credit issued by JP Morgan Chase Bank, N.A. pursuant to the Amended Credit Agreement remained outstanding. See Note 15 *Commitments and Contingencies*, for a further discussion of the ED

Letter of Credit.

Pursuant to the original terms of the Credit Agreement related to letters of credit, we were required to pay a quarterly participation fee, which accrued at the same rate used to determine the interest rate applicable to Eurodollar Revolving Loans (as defined in the Amended Credit Agreement). In addition to that quarterly participation fee, the Amended Credit Agreement provided that an additional quarterly participation fee was required to be paid by us related to the ED Letter of Credit, which accrued at a ticking fee rate on the average daily amount of the lenders' letter of credit exposure with respect to the ED Letter of Credit. The ticking fee rate was defined as:

0.00% per annum for the period from September 15, 2014 through and including March 21, 2015;

1.00% per annum for the period from March 22, 2015 through and including March 21, 2016;

2.00% per annum for the period from March 22, 2016 through and including March 21, 2017;

3.00% per annum for the period from March 22, 2017 through and including March 21, 2018;

4.00% per annum for the period from March 22, 2018 through and including March 21, 2019; and

5.00% per annum for the period from March 22, 2019 through November 15, 2019.

Under the Amended Credit Agreement, we were required to provide and were obligated to maintain cash collateral (in an amount equal to 109% of the face amount of the ED Letter of Credit and 103% of the face amount of all other letters of credit) for any letter of credit issued under the Amended Credit Agreement. As required, we utilized a portion of the proceeds from the Term Loans, as well as other funds, to provide cash collateral for the outstanding letters of credit in the amount of approximately \$89,300. The cash collateral was released to us in December 2015 and January 2016 when all obligations for the letters of credit issued pursuant to the Amended Credit Agreement were cancelled.

Borrowings under the Amended Credit Agreement bore interest, at our option, at the LIBOR plus an applicable margin or at an alternative base rate, as defined under the Amended Credit Agreement, plus an applicable margin. The applicable margin for borrowings under the Amended Credit Agreement was determined based on the ratio of our total Indebtedness (as defined in the Amended Credit Agreement and which primarily included outstanding borrowings, recorded contingent liabilities related to our guarantee obligations, letters of credit and surety bonds) to EBITDA (as defined in the Amended Credit Agreement) (the Credit Agreement Leverage Ratio) as of the end of each fiscal quarter. We also paid a commitment fee on the amount of the unutilized commitments under the Amended Credit Agreement. The amount of the commitment fee was determined based on the Credit Agreement Leverage Ratio as of the end of each quarter.

The effective interest rate on our borrowings under the Amended Credit Agreement was approximately:

4.20% per annum in the year ended December 31, 2014; and

3.60% per annum in the year ended December 31, 2013.

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There were no borrowings outstanding under the Amended Credit Agreement in the year ended December 31, 2015.

The following table sets forth the total amount of interest expense and fees (including the commitment fee and fees for letters of credit) that we recognized under the Amended Credit Agreement in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Interest expense and fees	\$ 2,815	\$ 2,893	\$ 3,424

PEAKS Trust Senior Debt. In January 2010, the PEAKS Trust issued the PEAKS Senior Debt in the aggregate principal amount of \$300,000 to investors. Beginning on February 28, 2013, the PEAKS Trust was consolidated in our consolidated financial statements. See Note 8 Variable Interest Entities, for a further discussion of the PEAKS Consolidation. The PEAKS Senior Debt was recorded on our Consolidated Balance Sheet as of February 28, 2013 at its estimated fair value on that date, which was approximately \$226,096. The outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was \$257,533. The \$31,437 difference between the estimated fair value and the outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was recorded as a debt discount on our Consolidated Balance Sheet and is being recognized as Interest expense in our Consolidated Statements of Operations using the interest method, based on the actual and projected cash flows, over the expected life of the PEAKS Senior Debt.

The following table sets forth the outstanding principal balance, debt discount and carrying value of the PEAKS Senior Debt as of the dates indicated:

	As of December 31,	
	2015	2014
Outstanding principal balance	\$ 57,111	\$ 96,918
Debt discount	(6,305)	(11,207)
Carrying value	\$ 50,806	\$ 85,711

We recorded \$20,105 as a current liability as of December 31, 2015, which represented our estimate of the amount of the carrying value that we expect to be due in the 12 months immediately following December 31, 2015.

The PEAKS Senior Debt matures in January 2020. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. Under the terms of the PEAKS Program documents, however, amounts received on a monthly basis by the PEAKS Trust that exceed the fees and expenses of the PEAKS Trust then due and the interest then due on the PEAKS Senior Debt are to be paid to reduce the outstanding principal balance of the PEAKS Senior Debt.

The following table sets forth the estimated principal payments on the PEAKS Senior Debt in the periods indicated:

Fiscal Year Ending December 31,	Amount
2016	\$ 20,105

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2017	8,548
2018	8,954
2019	9,775
2020	9,729
Total	\$ 57,111

The PEAKS Senior Debt bears interest at a variable rate based on the LIBOR, plus a 550 basis point margin. The minimum LIBOR rate applied to the PEAKS Senior Debt cannot be less than 2.00%. The effective interest rate on the PEAKS Senior Debt was approximately:

17.20% per annum in the year ended December 31, 2015;

16.80% per annum in the year ended December 31, 2014; and

9.90% per annum in the year ended December 31, 2013.

The following table sets forth the total amount of contractual interest expense and discount accretion that we recognized on the PEAKS Senior Debt in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Contractual interest expense	\$ 5,696	\$ 14,102	\$ 16,362
Discount accretion	4,902	16,220	4,926
Total interest expense	\$ 10,598	\$ 30,322	\$ 21,288

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The assets of the PEAKS Trust (which include, among other assets, the PEAKS Trust Student Loans) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. Payment of the PEAKS Senior Debt may be accelerated by the indenture trustee of the PEAKS Trust or by the holders of the PEAKS Senior Debt in response to certain events of default under the indenture under the PEAKS Program (the PEAKS Indenture), including, among other things:

a payment default by the PEAKS Trust;

a default in the performance or observation of the PEAKS Trust's covenants, agreements or conditions under the PEAKS Indenture;

a breach of our obligations under the PEAKS Guarantee; and

certain bankruptcy events with respect to the PEAKS Trust or us.

An acceleration of the payment of the PEAKS Senior Debt would result in an acceleration of our obligation to pay the full amount of the PEAKS Senior Debt pursuant to the terms of the PEAKS Guarantee, if the PEAKS Trust was not able to make that payment (and we believe that it is unlikely that the PEAKS Trust would be able to make that payment). The acceleration of our obligation to pay the full amount of the PEAKS Senior Debt, and/or our inability to make that payment, could also result in cross-defaults under the Financing Agreement.

Asset/Liability Ratio. The PEAKS Trust must maintain a minimum required Asset/Liability Ratio. The minimum required Asset/Liability Ratio is 1.05/1.00. The applicable required Asset/Liability Ratio as of each monthly measurement date, however, is based on our compliance, as of the prior quarterly measurement date, with certain metrics specified in the PEAKS Program documents, including maximum leverage ratios and minimum liquidity amounts. If we are not in compliance with those metrics as of the end of a fiscal quarter, the required Asset/Liability Ratio increases to 1.40/1.00, until the monthly measurement date following the end of a succeeding quarter at which we are in compliance with those metrics. We were not in compliance with those metrics as of December 31, 2015. For purposes of computing the Asset/Liability Ratio, as of December 31, 2015, the amount of the assets of the PEAKS Trust was \$77,078 and the amount of the liabilities was \$57,111. The amounts used to calculate the Asset/Liability Ratio include, for the assets, cash and the contractual balance of the PEAKS Trust Student Loans that have not defaulted, and, for the liabilities, the amount of the contractual balance of the PEAKS Senior Debt.

If the amount of the assets of the PEAKS Trust does not equal or exceed the outstanding PEAKS Senior Debt by the applicable required Asset/Liability Ratio on a monthly measurement date, we are required to make a payment under the PEAKS Guarantee in the following month in an amount that would reduce the outstanding principal balance of the PEAKS Senior Debt to the extent necessary to cause the ratio of the assets of the PEAKS Trust to the resulting outstanding PEAKS Senior Debt to equal or exceed the applicable required Asset/Liability Ratio.

In the year ended December 31, 2015, we made payments totaling \$30,090 under the PEAKS Guarantee, all of which were made to cause the PEAKS Trust to maintain the applicable required Asset/Liability Ratio. In the year ended December 31, 2014 we made payments of \$156,643 under the PEAKS Guarantee that were applied by the PEAKS Trust to reduce the amount of the PEAKS Senior Debt. The amount paid in 2014 included:

\$40,000 that we paid in March 2014 pursuant to the PEAKS Letter Agreement, which was applied primarily to make a mandatory prepayment of the PEAKS Senior Debt (see Note 8 Variable Interest Entities for a further discussion of the PEAKS Letter Agreement); and

payments totaling \$116,643 that we made from July 2014 through December 2014 to satisfy our obligations under the PEAKS Guarantee with respect to the increased minimum required Asset/Liability Ratio.

We also made additional payments under the PEAKS Guarantee in the year ended December 31, 2014 that were not related to maintaining the required Asset/Liability Ratio. See Note 15 Commitments and Contingencies, for a further discussion of the payments made under the PEAKS Program in the years ended December 31, 2015 and 2014, as well as our projected PEAKS Guarantee payments for 2016 through 2020.

As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, and the restatement of our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 (the Restatements), the quarterly and annual reports for the affected periods that we were required to deliver to the indenture trustee of the PEAKS Trust under the PEAKS Guarantee were inaccurate. We delivered corrected reports to the indenture trustee on March 14, 2016, and we believe that if any breach of the PEAKS Guarantee or any event of default under the PEAKS Indenture had occurred as a result of the Restatements, that our delivery of the corrected reports has cured any such breach or event of default. We cannot predict, however, whether the holders of the PEAKS Senior Debt will assert other breaches of the PEAKS Guarantee by us or assert that any breach of the PEAKS Guarantee or event of default under the PEAKS Indenture was not properly cured.

As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, certain quarterly reports that we were required to deliver to the indenture trustee of the PEAKS Trust under the PEAKS Guarantee were inaccurate. We delivered corrected quarterly reports to the indenture trustee on October 9, 2014. If we had delivered accurate quarterly reports or, with respect to periods in 2014 through September 30, 2014, delivered quarterly reports to the indenture trustee of the PEAKS Trust, we believe that the indenture trustee would have made payment demands beginning in April 2013, requiring us to make additional payments under the PEAKS Guarantee totaling approximately \$60,340, in the aggregate, in order to maintain an Asset/Liability Ratio of 1.40/1.00. On October 9, 2014, we made a payment under the PEAKS Guarantee of \$50,000, which payment, along with other payments that we made to the PEAKS Trust in the third quarter of 2014, included amounts that would have become due between

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April 2013 and September 2014, had we delivered accurate quarterly reports. The delivery of inaccurate quarterly reports constituted a breach of the PEAKS Guarantee and an event of default under the PEAKS Indenture. In the event of a default under the PEAKS Indenture, the payment of the entire amount of the PEAKS Senior Debt could be accelerated, which would trigger our obligation to pay the full amount of the PEAKS Senior Debt pursuant to our obligations under the PEAKS Guarantee, additional remedies could be sought against us and there could be a cross-default under the Financing Agreement, any of which would have a material adverse effect on our results of operations, financial condition and cash flows. We believe that the delivery of the corrected quarterly reports and the payments we made under the PEAKS Guarantee through October 9, 2014 satisfied our obligations under the PEAKS Guarantee with respect to these matters and cured the breach of the PEAKS Guarantee and event of default under the PEAKS Indenture. We cannot predict, however, whether the holders of the PEAKS Senior Debt will assert other breaches of the PEAKS Guarantee by us or that any breach of the PEAKS Guarantee or event of default under the PEAKS Indenture was not properly cured.

13. Income Taxes

The following table sets forth the components of the provision for income taxes in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Current income tax expense:			
U.S. federal	\$ 7,704	\$ (21,401)	\$ 39,279
State and local	727	(68)	4,611
Total	\$ 8,431	\$ (21,469)	\$ 43,890
Deferred income tax (benefit):			
U.S. federal	\$ 6,385	\$ 36,088	\$ (46,345)
State and local	1,286	2,203	(7,757)
Total	\$ 7,671	\$ 38,291	\$ (54,102)
Total provision (benefit) for income taxes	\$ 16,102	\$ 16,822	\$ (10,212)

We recognized state income tax benefit of approximately \$988 in the year ended December 31, 2015, and \$5,687 in the year ended December 31, 2014, as a result of state operating losses.

We are not required to include the Consolidated VIEs in our consolidated income tax returns. Therefore, we did not recognize income tax expense or benefit for the Consolidated VIEs in the provision for income taxes included in our Consolidated Statements of Operations for the years ended December 31, 2015 and 2014. The effect of the exclusion of the Consolidated VIEs from our income tax provision is shown in the reconciliation of our effective income tax rate as a percentage of income shown below.

The following table sets forth the components of our deferred income tax assets (liabilities) as of the dates indicated:

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	As of December 31,	
	2015	2014
Deferral of book costs	\$ (967)	\$ (1,575)
Pension	(11,255)	(11,113)
Other	(1,155)	(1,972)
Gross deferred tax (liabilities)	\$ (13,377)	\$ (14,660)
Deferred revenue	\$ 6,228	\$ 10,082
Accounts receivable	103	910
Property and equipment	7,674	2,495
Intangibles	3,110	1,065
Legal accrual	6,288	5,796
Compensation and benefits	2,445	2,410
Stock-based compensation	14,859	19,394
Operating leases	3,889	2,189
Other assets	8,678	8,671
Other contingent liabilities	58,360	67,914
Gross deferred tax assets	\$ 111,634	\$ 120,926
Net deferred income tax asset	\$ 98,257	\$ 106,266

The difference between the U.S. federal statutory income tax rate and our effective income tax rate as a percentage of income in the periods indicated is reconciled in the following table:

	Year Ended December 31,		
	2015	2014	2013
U.S. federal statutory income tax rate	35.0%	35.0%	(35.0)%
Rate differential on VIEs	0.0%	1.0%	11.9%
State income taxes, net of federal benefit	3.4%	3.1%	(5.6)%
Permanent book/tax differences	1.8%	3.3%	2.8%
Other	0.7%	(0.5)%	(1.5)%
Effective income tax rate	40.9%	41.9%	(27.4)%

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The following table sets forth the activity with respect to our unrecognized tax benefits in the period indicated:

	Year Ended December 31,		
	2015	2014	2013
Balance as of January 1	\$ 24,900	\$ 22,291	\$ 20,690
Increases (decreases) from:			
Tax positions taken during a prior period	4,404	5,620	1,675
Tax positions taken during the current period	406	537	870
Settlements with taxing authorities	(1,520)	(2,551)	186
Lapse of statute of limitations	(645)	(997)	(1,130)
Balance as of December 31	\$ 27,545	\$ 24,900	\$ 22,291

The amount of unrecognized tax benefits that, if recognized, would have affected our effective tax rate were approximately:

\$13,990 as of December 31, 2015;

\$11,109 as of December 31, 2014; and

\$10,575 as of December 31, 2013.

We may resolve certain federal and state income tax matters presently under examination within the 12 months immediately following the date of this filing. As of December 31, 2015, we estimated that it was reasonably possible that unrecognized tax benefits, excluding interest and penalties, could decrease in an amount ranging from \$0 to \$8,100 in the 12 months immediately following the date of this filing due to the resolution of those matters. The amount of interest and penalties related to unrecognized tax benefits accrued on our Consolidated Balance Sheets was \$6,552 as of December 31, 2015 and \$6,135 as of December 31, 2014. In each of the years ended December 31, 2015, 2014 and 2013, the amount of interest expense and penalties related to our unrecognized tax benefits that we recognized in our Consolidated Statements of Operations was not significant.

We file income tax returns in the United States (federal) and in various state and local jurisdictions. As of December 31, 2015, our federal income tax returns for tax years prior to 2010 were no longer subject to examination. As of December 31, 2015, our state or local income tax returns were no longer subject to examination for tax years prior to 2011, except in nine states where our income tax returns are still subject to examinations for tax year 2010 and one state where our income tax return is still subject to examination for the tax year 2008.

14. Employee Benefit Plans

Employee Pension Benefits. Our ESI Pension Plan, a non-contributory defined benefit pension plan, commonly referred to as a cash balance plan, covers substantially all of our employees who began their employment with us prior to June 2, 2003. This plan provides benefits based on an employee's annual earnings times an established percentage of

pay determined by the employee's age and years of benefit service. Effective June 2, 2003, we closed participation in the ESI Pension Plan to all new employees. Employees who begin their employment with us on or after June 2, 2003 do not participate in the ESI Pension Plan.

Our ESI Excess Pension Plan, a nonqualified, unfunded retirement plan, covers a select group of our management. The purpose of the ESI Excess Pension Plan is to restore benefits earned, but not available, to eligible employees under the ESI Pension Plan due to federal statutory limitations on the amount of benefits that can be paid and compensation that may be recognized under a tax-qualified retirement plan.

The benefit accruals under the ESI Pension Plan and the ESI Excess Pension Plan for all participants in those plans were frozen effective March 31, 2006, such that no further benefits accrue under those plans after March 31, 2006. Participants in those plans, however, continue to be credited with vesting service and interest according to the terms of the ESI Pension Plan and the ESI Excess Pension Plan.

The information presented below is based on actuarial valuation dates of December 31, 2015 and 2014, as applicable.

The following table sets forth the change in projected benefit obligation for the periods indicated:

	Year Ended December 31,	
	2015	2014
Projected benefit obligation at beginning of year	\$ 52,419	\$ 49,412
Service cost	0	0
Actuarial (gain) loss	(1,574)	4,741
Interest cost	1,570	1,993
Benefits paid	(3,631)	(3,727)
Plan amendments	0	0
Projected benefit obligation at end of year	\$ 48,784	\$ 52,419
Fair value of plan assets at end of year	78,011	81,130
Funded status at end of year	\$ 29,227	\$ 28,711

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Our accumulated benefit obligation was \$48,784 at December 31, 2015 and \$52,419 at December 31, 2014.

The following table sets forth the funded status of our defined benefit plans that was recognized on our Consolidated Balance Sheets as of the dates indicated:

	As of December 31,	
	2015	2014
Non-current assets	\$ 29,385	\$ 29,028
Non-current (liabilities)	(158)	(317)
Total	\$ 29,227	\$ 28,711

The weighted-average assumptions used to determine benefit obligations as of December 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	3.50%	3.25%
Rate of compensation increase	N/A	N/A

The following table sets forth the change in the fair value of plan assets for the periods indicated:

	Year Ended December 31,	
	2015	2014
Fair value of plan assets at beginning of year	\$ 81,130	\$ 76,710
Actual return on plan assets	346	8,147
Employer contributions	0	0
Benefits paid	(3,465)	(3,727)
Fair value of plan assets at end of year	\$ 78,011	\$ 81,130

The following tables set forth the fair value of total plan assets by major asset category as of the dates indicated:

Asset Category	Total	Fair Value Measurements as of December 31, 2015		
		(Level 1)		(Level 2)
		Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash and cash equivalents	\$ 440	\$ 440	\$ 0	\$ 0
Fixed income securities ^(a)	5,622	5,622	0	0

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Equity securities:					
Domestic large cap	46,640		46,640	0	0
Mid cap value/growth ^(a)	13,629		13,629	0	0
Small cap value/growth ^(a)	7,716		7,716	0	0
Foreign equities	3,964		3,964	0	0
Total	\$ 78,011	\$	78,011	\$ 0	\$ 0

(a) Mutual funds.

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Asset Category	Total	Fair Value Measurements as of December 31, 2014		
		(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash and cash equivalents	\$ 995	\$ 995	\$ 0	\$ 0
Fixed income securities ^(a)	9,258	9,258	0	0
Equity securities:				
Domestic large cap	45,137	45,137	0	0
Mid cap value/growth ^(a)	13,725	13,725	0	0
Small cap value/growth ^(a)	7,894	7,894	0	0
Foreign equities	4,121	4,121	0	0
Total	\$ 81,130	\$ 81,130	\$ 0	\$ 0

(a) Mutual funds.

We used quoted prices in active markets for identical assets as of the measurement dates to value our plan assets that were categorized as Level 1.

The following table sets forth the amounts in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets that have not been recognized as components of net periodic pension benefit cost as of the dates indicated:

	As of December 31,	
	2015	2014
Net actuarial (loss)	\$ (5,337)	\$ (2,169)
Prior service credit	2,468	4,023
Total accumulated other comprehensive income (loss)	\$ (2,869)	\$ 1,854
Income tax (expense)	1,176	(653)
Total accumulated other comprehensive income (loss), net of tax	\$ (1,693)	\$ 1,201

The following table sets forth the changes in the components of Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets in the fiscal years ended December 31, 2014 and 2015:

Defined Benefit Pension Items		
Accumulated Other	Income Tax Benefit	Accumulated Other

	Comprehensive (Expense) Income (Loss)		Comprehensive Income (Loss) Net of Income Tax
Balance at December 31, 2013	\$ 5,032	\$ (1,886)	\$ 3,146
Net actuarial gain	(1,760)	683	(1,077)
Settlement gain	137	(53)	84
Amortization of:			
Actuarial (gains)/losses	0	0	0
Prior service costs/(credits)	(1,555)	603	(952)
Balance at December 31, 2014	\$ 1,854	\$ (653)	\$ 1,201
Net actuarial (loss)	(3,523)	1,364	(2,159)
Settlement gain	354	(137)	217
Amortization of:			
Actuarial (gains)/losses	1	0	1
Prior service costs/(credits)	(1,555)	602	(953)
Balance at December 31, 2015	\$ (2,869)	\$ 1,176	\$ (1,693)

The reclassification of prior service costs or credits, actuarial gains or losses and settlement gains or losses from Accumulated other comprehensive income (loss) are included in the computation of net periodic pension benefit cost (income). Net periodic pension benefit cost (income) was included in compensation expense in Cost of educational services and Student services and administrative expenses in our Consolidated Statements of Operations in the fiscal years ended December 31, 2015 and 2014.

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The following table sets forth the components of net periodic pension benefit (income) in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Interest cost	\$ 1,570	\$ 1,993	\$ 1,756
Expected return on assets	(5,443)	(5,164)	(4,344)
Recognized net actuarial loss	1	0	2,037
Amortization of prior service (credit) cost	(1,555)	(1,555)	(1,555)
Settlement loss	354	137	42
 Total net periodic pension benefit (income)	 \$ (5,073)	 \$ (4,589)	 \$ (2,064)

The benefit accruals under the ESI Pension Plan and ESI Excess Pension Plan were frozen effective March 31, 2006. As a result, no service cost has been included in the net periodic pension benefit income.

The following table sets forth the amounts related to changes in plan assets and projected benefit obligations that were recognized in other comprehensive (income) loss in the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Net actuarial (gain) loss	\$ 3,523	\$ 1,760	\$ (17,566)
Amortization of net actuarial loss	(1)	0	(2,037)
Amortization of prior service cost	1,555	1,555	1,555
Settlement	(354)	(137)	(42)
 Other comprehensive (income) loss	 \$ 4,723	 \$ 3,178	 \$ (18,090)
 Total recognized in net periodic pension benefit (income) and other comprehensive (income) loss	 \$ (350)	 \$ (1,411)	 \$ (20,154)

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period for employees expected to receive benefits under the pension plans. The estimated net actuarial loss that is expected to be amortized from accumulated other comprehensive income and recognized in net periodic pension benefit cost for the year ended December 31, 2016 is less than \$1 and the estimated prior service credit that is expected to be amortized from accumulated other comprehensive income and recognized in net periodic pension benefit cost for the year ended December 31, 2016 is \$1,555.

The weighted-average assumptions used to determine net periodic pension benefit cost in the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Discount rate	3.25%	4.25%	3.25%

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Expected long-term return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	N/A	N/A	N/A

The following table sets forth the benefit payments that we expect to pay from the pension plans in the periods indicated:

Year	Amount
Fiscal 2016	\$ 5,360
Fiscal 2017	\$ 4,875
Fiscal 2018	\$ 4,367
Fiscal 2019	\$ 3,803
Fiscal 2020	\$ 3,705
Fiscal 2021 - 2025	\$ 14,756

We invest plan assets based on a total return on investment approach, pursuant to which the plan assets include a diversified blend of equity and fixed income investments toward a goal of maximizing the long-term rate of return without assuming an unreasonable level of investment risk. We determine the level of risk based on an analysis of plan liabilities, the extent to which the value of the plan assets satisfies the plan liabilities and our financial condition. Our investment policy includes target allocations ranging from 30% to 70% for equity investments, 20% to 60% for fixed income investments and 0% to 50% for cash equivalents. Actual asset allocations may vary from the targeted allocations for various reasons, including market conditions and the timing of transactions. The equity portion of the plan assets represents growth and value stocks of small, medium and large companies. We measure and monitor the investment risk of the plan assets both on a quarterly basis and annually when we assess plan liabilities.

We use a building block approach to estimate the long-term rate of return on plan assets. This approach is based on the capital market principle that the greater the volatility, the greater the return over the long term. An analysis of the historical performance of equity and fixed income investments, together with current market factors such as the inflation and interest rates, are used to help us make the assumptions necessary to estimate a long-term rate of return on plan assets. Once this estimate is made, we review the portfolio of plan assets and make adjustments thereto that we believe are necessary to reflect a diversified blend of equity and fixed

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income investments that is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk. We also compare the portfolio of plan assets to those of other pension plans to help us assess the suitability and appropriateness of the plan investments.

We determine our discount rate by performing a yield curve analysis based on a portfolio of high-quality fixed income investments with various maturities. Our expected future benefit payments are discounted to their present value at the appropriate yield curve rate to generate the overall discount rate for pension obligations.

In 2015 and 2014, we made no contributions to the ESI Excess Pension Plan or the ESI Pension Plan. We do not expect to make any contributions to either the ESI Pension Plan or the ESI Excess Pension Plan in 2016.

Retirement Savings Plans. Our ESI 401(k) Plan, a defined contribution plan, covers substantially all of our employees. All of our contributions under the ESI 401(k) Plan are in the form of cash to plan investment options directed by the participant.

On July 1, 2013, we changed the rate at which we made contributions to the ESI 401(k) Plan on behalf of our employees. Prior to July 1, 2013, we contributed 100% of the first 1% and 50% of the next 4% of an employee's salary that the employee contributed to his or her ESI 401(k) Plan account. Beginning July 1, 2013, we contribute 50% of the first 6% of an employee's salary that the employee contributes to his or her ESI 401(k) Plan account.

Our ESI Excess Savings Plan, a nonqualified, unfunded deferred compensation plan, covers a select group of our management. The plan provided for salary deferral of contributions that the participants were unable to make under the ESI 401(k) Plan and our contributions that could not be paid under the ESI 401(k) Plan due to federal statutory limits on the amount that an employee could contribute under a defined contribution plan. Effective for plan years beginning on and after January 1, 2008, we froze the ESI Excess Savings Plan, such that employees may no longer make salary deferrals and we will no longer make contributions under the ESI Excess Savings Plan. Amounts previously credited to an employee under the ESI Excess Savings Plan will, however, continue to accrue interest in accordance with the terms of the ESI Excess Savings Plan, until those amounts are distributed pursuant to the plan's terms.

The costs of providing the benefits under the ESI 401(k) Plan and ESI Excess Savings Plan (including certain administrative costs of the plans) were approximately:

\$2,566 in the year ended December 31, 2015;

\$3,073 in the year ended December 31, 2014; and

\$3,454 in the year ended December 31, 2013.

15. Commitments and Contingencies

As part of our normal operations, one of our insurers issues surety bonds for us that are required by various education authorities that regulate us. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of December 31, 2015, the total face amount of those surety bonds was approximately \$23,000. As of

December 31, 2015, we also had caused a letter of credit with a face amount of approximately \$106 to be issued to one of our state regulatory agencies.

Our institutions' failure to submit their 2013 audited consolidated financial statements and the 2013 compliance audits of their administration of the Title IV Programs in which they participate (Compliance Audits) to the ED by the due date resulted in sanctions imposed by the ED on our institutions that included, among other things, our institutions having to submit a letter of credit payable to the ED. We caused the ED Letter of Credit in the amount of \$79,708 to be issued on October 31, 2014. On December 16, 2015, we entered into the ED Agreement to provide funds to the ED for the ED to maintain in an escrow account in lieu of the ED Letter of Credit. As of December 31, 2015 the amount of the ED Escrowed Funds held by the ED was \$79,708. The ED Letter of Credit was cancelled effective December 22, 2015.

The ED Agreement provides, and the ED Letter of Credit provided, that the ED may draw on the ED Escrowed Funds or ED Letter of Credit upon certification by the ED that the drafted funds will be used for one or more of the following purposes:

to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;

to provide for the teach-out of students enrolled at the time of closure of our institutions; and

to pay any liabilities owing to the ED arising from acts or omissions by our institutions, on or before November 4, 2019, in violation of requirements set forth in the HEA, including the violation of any agreement entered into by our institutions with the ED regarding the administration of Title IV Programs.

Lease Commitments. We lease our non-owned facilities under operating lease agreements. A majority of the operating leases contain renewal options that can be exercised after the initial lease term. Renewal options are generally for periods of one to five years. All operating leases will expire over the next eight years and we expect that:

most of those leases will be renewed or replaced by other leases in the normal course of business;

we may purchase the facilities represented by those leases; or

we may purchase or build other replacement facilities.

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There are no material restrictions imposed by the lease agreements, and we have not entered into any significant guarantees related to the leases. We are required to make additional payments under the operating lease terms for taxes, insurance and other operating expenses incurred during the operating lease period.

Rent expense under our operating leases was:

\$40,147 in the year ended December 31, 2015;

\$46,268 in the year ended December 31, 2014; and

\$53,212 in the year ended December 31, 2013.

Future minimum rental payments required under our operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2015 are as follows:

2016	\$ 37,270
2017	34,728
2018	27,192
2019	20,092
2020	11,118
2021 and thereafter	4,159
	\$ 134,559

Future minimum rental payments related to equipment leases are not significant.

Claims and Contingencies. We are also subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, guarantee arrangements and employee-related matters, among others. We record a liability for those claims and contingencies, if it is probable that a loss will result and the amount of the loss can be reasonably estimated. Although we believe that our estimates related to any claims and contingencies are reasonable, we cannot make any assurances with regard to the accuracy of our estimates, and actual results could differ materially.

The following table sets forth the components of our recorded liability related to our claims and contingencies and where the amounts were included on our Consolidated Balance Sheets as of the dates indicated:

	As of December 31,	
	2015	2014
Other current liabilities	\$ 16,330	\$ 14,976
Other liabilities	588	598

Total	\$ 16,918	\$ 15,574
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The following table sets forth the activity with respect to our recorded liability related to our claims and contingencies in the periods indicated:

	Year Ended December 31,	
	2015	2014
Balance as of January 1	\$ 15,574	\$ 125,880
Increases (decreases) from:		
Additional accruals:		
CUSO RSA	0	2,019
Other ⁽¹⁾	53,490	36,634
Payments, other ⁽²⁾	(52,146)	(29,542)
Payments under CUSO RSA	0 ⁽³⁾	(9,139) ⁽⁴⁾
Elimination of CUSO intercompany transactions	0	4,583 ⁽⁵⁾
Elimination of CUSO RSA accrual ⁽⁶⁾	0	(114,861)
Balance as of December 31	\$ 16,918	\$ 15,574

(1) Consists of accruals for legal fees and settlement amounts.

(2) Consists of payments for legal and other contingencies.

(3) We consolidated the CUSO in our consolidated financial statements as of September 30, 2014 and, as a result, we eliminated from our consolidated financial statements the amount of payments under the CUSO RSA that we made following the CUSO Consolidation. See below under *Guarantees* CUSO RSA *CUSO RSA Payments*, for information on the amount of payments that we made under the CUSO RSA in the years ended December 31, 2015 and 2014. See Note 8 *Variable Interest Entities*, for a further discussion of the CUSO Consolidation.

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- (4) Consists of payments made under the CUSO RSA, net of recoveries from charged-off CUSO Student Loans that we received or offset against payments owed under the CUSO RSA, or that were owed but had not been remitted to us.
- (5) We consolidated the CUSO in our consolidated financial statements as of September 30, 2014 and, as a result, we eliminated from our consolidated financial statements the amount of payments under the CUSO RSA that we made following the CUSO Consolidation.
- (6) As a result of the CUSO Consolidation, we eliminated from our consolidated financial statements the contingent liability related to the CUSO RSA that we had previously recorded.

Prior to the CUSO Consolidation, in order to determine the amount of the contingent liability to record related to our guarantee obligations under the CUSO RSA, we utilized estimates of, among other things, the projected repayment performance of the private education loans made under the CUSO Program, which projections involved numerous assumptions. We consulted with third-party consumer credit consulting firms in developing certain repayment assumptions. Based on those projections and other factors, we estimated the amount of payments that we expected to make and the amounts that we expected to be repaid to us.

In connection with determining the amount of the contingent liability to record related to our guarantee obligations under the CUSO RSA prior to the CUSO Consolidation, we also considered the payment options available to us under the CUSO Program, including our ability to make Discharge Payments under the CUSO RSA. To the extent that we projected that we would have sufficient funds available to make Discharge Payments under the CUSO RSA, we incorporated an assumption that we would make Discharge Payments into our estimate of the amount of payments that we expected to make when determining the contingent liability. If we did not believe that we would have sufficient funds available to make Discharge Payments, we assumed that we would make Regular Payments to satisfy our obligations under the CUSO RSA. We discounted the amount of those expected future monthly Regular Payments at a risk-free rate of interest. Making Discharge Payments results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligations in future periods under the CUSO RSA and, therefore, results in an estimated contingent liability amount that is less than if we had assumed that we would make Regular Payments in future periods.

Under the CUSO RSA, we are entitled to all amounts that the CUSO recovers from loans in a particular loan pool made under the CUSO Program that have been charged off, until all payments that we made under the CUSO RSA with respect to that loan pool have been repaid to us by the CUSO. We discounted the amounts of recoveries that we expected would be repaid to us under the CUSO RSA at a risk-free rate of interest. The difference between the amount of the discounted guarantee payments that we expected to make and the discounted amount that we expected would be repaid to us under the CUSO RSA was recorded as the amount of our estimated contingent liability related to our guarantee obligations under the CUSO RSA, prior to the CUSO Consolidation.

In connection with estimating our recorded liability for claims and contingencies as of December 31, 2015 and 2014, we considered whether additional losses for claims and contingencies were reasonably possible, could be estimated and might be material to our financial condition, results of operations or cash flows. As with any estimate, as facts and circumstances change, the recorded liability and estimated range of reasonably possible losses could change significantly. With respect to legal proceedings, we determined that we cannot provide an estimate of the possible losses, or the range of possible losses, in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following:

there are significant factual issues to be resolved;

there are novel or unsettled legal issues presented;

the proceedings are in the early stages, or discovery has not commenced or has not been completed;

there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class;

there is uncertainty as to the outcome of pending appeals or motions; and

in many cases, the plaintiffs have not specified damages in their complaint or in court filings. We have presented settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters as a separate line item in our Consolidated Statements of Operations. A portion of the amounts included in this line item represent expenses for various lawsuits, investigations and accounting matters that we believe are not representative of those normally incurred in the ordinary course of business. Certain of those lawsuits and investigations are described in detail, below. The expenses for the accounting matters included in this line item related primarily to:

services related to accounting for the Private Education Loans in the year ended December 31, 2015; and

audit work performed in connection with the assessment of the consolidation of the PEAKS Trust. In addition, a portion of the amounts included in this line item for the year ended December 31, 2015 included our estimate of the amount of the loss that we believe is probable in order to settle certain lawsuits against us. In the year ended December 31, 2015, we recognized a loss of \$31,000 for the settlement of the New York Securities Litigation, the Indiana Securities Litigation, the Wilfred Litigation, the Lawrence Litigation, the McKee Litigation and the Gallien Litigation (each defined and described in detail below), offset by \$25,000 for the recovery from insurance for the New York Securities Litigation and the Indiana Securities Litigation.

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Guarantees. PEAKS Guarantee and Purchase Obligation. Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required Asset/Liability Ratio. The PEAKS Guarantee contains, among other things, representations and warranties and events of default that we believe are customary for guarantees of this type. In addition, under the PEAKS Program, some or all of the holders of the PEAKS Senior Debt could require us to purchase their PEAKS Senior Debt, if the law is changed to reduce the maximum allowable percentage of our annual revenue derived from Title IV Program funds from 90% to 75% or less. At this time, we believe that the likelihood of such a change in the law is remote. Our guarantee and purchase obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. At such time, we will be entitled to repayment of the amount of any payments we made under the PEAKS Guarantee (which do not include Payments on Behalf of Borrowers) to the extent that funds are remaining in the PEAKS Trust. The PEAKS Senior Debt matures in January 2020 and, therefore, we do not expect to begin receiving any repayment of amounts that we previously paid under the PEAKS Guarantee until February 2020.

We concluded that we were required to consolidate the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. See Note 8 Variable Interest Entities, for a further discussion of the PEAKS Consolidation. As a result, the assets and liabilities of the PEAKS Trust have been included on, and all intercompany transactions have been eliminated from, our Consolidated Balance Sheets as of December 31, 2015 and 2014. While we no longer record a contingent liability for the PEAKS Guarantee on our Consolidated Balance Sheet beginning on February 28, 2013, our obligations under the PEAKS Guarantee remain in effect.

PEAKS Program Payments. In the year ended December 31, 2015, we made payments under the PEAKS Guarantee of \$30,090. All of these payments reduced the outstanding principal balance of the PEAKS Senior Debt to maintain the minimum Asset/Liability Ratio. In the year ended December 31, 2014, we made payments related to the PEAKS Program of approximately \$161,087. Included in this amount were:

the \$40,000 payment we made in March 2014 pursuant to the PEAKS Letter Agreement, which is considered to be a payment under the PEAKS Guarantee;

the payments totaling \$116,643 that we made from July 2014 through December 2014 to satisfy our obligation under the PEAKS Guarantee with respect to the increased minimum required Asset/Liability Ratio;

payments totaling \$2,612 that we made from March 2014 through September 2014 to satisfy our obligations under the PEAKS Guarantee with respect to interest owed on the PEAKS Senior Debt and administrative fees and expenses of the PEAKS Trust; and

Payments on Behalf of Borrowers of \$1,832 that we made in January 2014.

See also *PEAKS Program and CUSO RSA Payments in Certain Periods* for additional information regarding certain payments we have made related to the PEAKS Program.

Projected PEAKS Guarantee Payments. We believe that it is probable that we will make additional payments under the PEAKS Guarantee and estimate that those payments may be approximately \$11,700 in 2016, \$100 in 2017, and

\$9,700 in 2020. All of these payments are expected to reduce the outstanding principal balance of the PEAKS Senior Debt, which would result in an outstanding principal balance of the PEAKS Senior Debt of approximately \$37,000 as of December 31, 2016, \$28,500 as of December 31, 2017 and \$0 as of January 31, 2020. See Note 12 Debt, for a further discussion of the PEAKS Senior Debt. After the PEAKS Senior Debt matures in January 2020, the PEAKS Trust will continue to collect on PEAKS Trust Student Loans that remain in repayment and collect recoveries on PEAKS Trust Student Loans that have been charged off. The only obligation of the PEAKS Trust, at that time, will be the payment of the fees and expenses of the PEAKS Trust. As a result, we believe that, after that time, we may recover from the PEAKS Trust, in the aggregate, approximately \$37,000 of the amount that we have paid or will pay under the PEAKS Guarantee. See below for information regarding the assumptions on which those estimates are based.

The estimated amount and timing of future payments and recoveries with respect to the PEAKS Guarantee discussed above and elsewhere in this report are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. The assumptions included, among other things, the following:

the repayment performance of the PEAKS Trust Student Loans, the proceeds from which will be used to repay the PEAKS Senior Debt and to pay the fees and expenses of the PEAKS Trust, and the performance of which also affects the Asset/Liability Ratio;

the fact that those loans will consist of a large number of loans of individually immaterial amounts;

the fact that the interest rate on the PEAKS Senior Debt is a variable rate based on the LIBOR plus a margin; and

the amount of fees and expenses of the PEAKS Trust, much of which is based on the principal balance of the PEAKS Trust Student Loans.

CUSO RSA. On February 20, 2009, we entered into the CUSO RSA in connection with the CUSO Program. Under the CUSO RSA, we guarantee the repayment of the principal amount (including capitalized origination fees) and accrued interest payable on any private education loans that are charged off above a certain percentage of the private education loans made under the CUSO

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Program, based on the annual dollar volume. The total initial principal amount of private education loans that the CUSO purchased under the CUSO Program was approximately \$141,000. No new private education loans were or will be originated under the CUSO Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through June 2012. Our obligations under the CUSO RSA will remain in effect, until all private education loans made under the CUSO Program are paid in full. The standard repayment term for a private education loan made under the CUSO Program is ten years, with repayment generally beginning six months after a student graduates or three months after a student withdraws or is terminated from his or her program of study.

Pursuant to the CUSO RSA, we are required to maintain collateral to secure our guarantee obligation in an amount equal to a percentage of the outstanding balance of the private education loans disbursed to our students under the CUSO Program. As of December 31, 2015 and 2014, the total collateral maintained in a restricted bank account was approximately \$8,630. This amount was included in Collateral deposits on our Consolidated Balance Sheets as of each of those dates. The CUSO RSA also requires that we comply with certain covenants, including that we maintain certain financial ratios which are measured on a quarterly basis and deliver compliance certificates on a quarterly basis setting forth the status of our compliance with those financial ratios. If we are not in compliance with those covenants at the end of each fiscal quarter, we are required to increase the amount of collateral maintained in the restricted bank account to a predetermined amount, until the end of a succeeding quarter at which we are in compliance with those covenants. The predetermined amount is based on the percentage of the aggregate principal balance of the private education loans made under the CUSO Program that exceeds a certain percentage as of the end of each fiscal quarter.

As a consequence of the Restatements, the quarterly and annual reports for the affected periods that we were required to deliver to the CUSO were inaccurate. We delivered corrected reports to the CUSO on March 14, 2016, and we believe that if any breach of any of our obligations under our agreements with the CUSO or any event of default had occurred as a result of the Restatements, that our delivery of the corrected reports has cured any such breach or event of default. We cannot predict, however, whether the CUSO will assert other breaches of our agreements with the CUSO or assert that any breach or event of default was not properly cured.

Under the CUSO RSA, we have the right to elect to make Discharge Payments with respect to private education loans made under the CUSO Program that have been charged off. The effect of a making a Discharge Payment related to a private education loan is to reduce the aggregate amount that we may have to pay under our guarantee obligations with respect to that loan. We have claimed as an offset against amounts owed to us under the Revolving Note amounts that would have the effect of discharging our obligations with respect to certain charged off loans under the CUSO RSA. In addition, in the years ended December 31, 2015 and 2014, we made Discharge Payments to the CUSO. Making Discharge Payments results in us paying amounts to the CUSO in advance of when a guarantee payment would be due, which would negatively impact our liquidity in a particular period, but results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligation in future periods under the CUSO RSA. See Note 8 – Variable Interest Entities, for a further discussion of Discharge Payments.

We concluded that we were required to consolidate the CUSO in our consolidated financial statements beginning on September 30, 2014. See Note 8 – Variable Interest Entities, for a further discussion of the CUSO Consolidation. As a result, the assets and liabilities of the CUSO have been included on, and all intercompany transactions have been eliminated from, our Consolidated Balance Sheets as of December 31, 2015 and 2014. While we no longer record a contingent liability for the CUSO RSA on our Consolidated Balance Sheet beginning on September 30, 2014, our obligations under the CUSO RSA remain in effect.

CUSO RSA Payments. In the year ended December 31, 2015, we made payments under the CUSO RSA of \$13,093, which is net of \$521 of recoveries from charged-off loans owed to us. In the year ended December 31, 2014, we made

payments under the CUSO RSA of \$9,139, which is net of \$466 in recoveries from charged-off loans owed to us. In the year ended December 31, 2014, the CUSO did not remit to us \$475 of recoveries from charged-off loans that were owed to us. See also PEAKS Program and CUSO RSA Payments in Certain Periods for additional information regarding certain payments we have made related to the CUSO Program.

CUSO RSA Amendments. As a consequence of the restatement of our unaudited condensed consolidated financial statements in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, certain quarterly compliance certificates that we were required to deliver to the CUSO under the CUSO RSA were inaccurate. Those inaccuracies did not affect our compliance with the financial ratio covenants in the CUSO RSA as of March 31, 2013. We were not, however, in compliance with certain financial ratio covenants in the CUSO RSA as of June 30, 2013 or subsequent fiscal quarter measurement dates through September 30, 2014. Further, due to our failure to timely file our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014, we did not timely deliver the required compliance certificates under the CUSO RSA with respect to those periods. As a result of our noncompliance with certain financial ratio covenants as of June 30, 2013 and subsequent fiscal quarter measurement dates through September 30, 2014, the amount of collateral required to be maintained in the restricted bank account would have been increased by approximately \$2,600. On November 6, 2014, we entered into a Fourth Amendment to the CUSO RSA with the CUSO (the Fourth Amendment to CUSO RSA). The Fourth Amendment to CUSO RSA provides that we were not required to comply with certain financial ratio covenants under the CUSO RSA that we otherwise would not have been in compliance with from June 30, 2013 through September 30, 2014 and that we did not expect to be in compliance with as of December 31, 2014. In lieu of an increase in the required collateral under the CUSO RSA, we made a payment of \$2,577 to the CUSO on November 12, 2014, pursuant to the Fourth Amendment to CUSO RSA, which payment was considered a Discharge Payment under the CUSO RSA.

On March 17, 2015, we entered into a Fifth Amendment to the CUSO RSA with the CUSO (the Fifth Amendment to CUSO RSA). The Fifth Amendment to CUSO RSA provides that we were not required to comply with certain financial ratio covenants under the CUSO RSA that we otherwise would not have been in compliance with from June 30, 2013 through: (i) March 31, 2015

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related to our debt service ratio, and (ii) December 31, 2015 related to our current ratio. Additionally, the Fifth Amendment to CUSO RSA provides that for any fiscal quarter end in which the CUSO (or its owned or managed assets) are consolidated into our financial statements that the financial covenant and persistence percentage provisions and the corresponding compliance certificate requirements will be based on our relevant quarterly and annual reports that we file with the SEC, but excluding the effects of any such consolidation. Furthermore, any financial statements for periods ending prior to March 17, 2015 that we are required to deliver to the CUSO, but had not been delivered as of that date, were required to be delivered to the CUSO on or before May 31, 2015. In lieu of an increase in the required collateral under the CUSO RSA, we made a payment of \$2,709 to the CUSO on March 19, 2015 pursuant to the Fifth Amendment to CUSO RSA, which payment was considered a Discharge Payment under the CUSO RSA.

On June 8, 2015, we entered into a Sixth Amendment to the CUSO RSA (the Sixth Amendment to CUSO RSA) with the CUSO. The Sixth Amendment to CUSO RSA provides that:

the period of time during which we are not required to comply with the debt service ratio covenant under the CUSO RSA is extended through March 31, 2016;

the period of time during which we are not required to comply with the current ratio covenant under the CUSO RSA is extended through March 31, 2016;

we are not required to comply with the average persistence percentage covenant under the CUSO RSA as of the end of each fiscal quarter ending March 31, 2015 through March 31, 2016;

we make a payment of \$6,544 to the CUSO, which payment is considered a Discharge Payment under the CUSO RSA;

at our option, we may defer the payment of any amounts otherwise becoming due by us under the CUSO RSA between June 8, 2015 and December 31, 2015, which payments must be made by us on or before January 4, 2016; and

the payments deferred by us will not bear interest, unless we do not pay such amounts by January 4, 2016, in which case any portion of any deferred payments remaining unpaid as of that date will accrue interest at the rate of 12.5% per annum, from the date such deferred payment would otherwise have been due absent the deferral provided in the Sixth Amendment to CUSO RSA.

We made the \$6,544 Discharge Payment on June 10, 2015, which had the effect of reducing the amount of Regular Payments that we otherwise would have had to make in 2015 by approximately \$2,000. The reason for the provision in the Sixth Amendment to CUSO RSA that permitted us to defer to 2016 the payment of any amounts otherwise becoming due between June 8, 2015 and December 31, 2015 is because without such deferral, we believed that we would have exceeded the limitation under the Financing Agreement on amounts that we could pay in 2015 under the CUSO RSA and the PEAKS Guarantee. We deferred the full amount of the payments due in June 2015 through December 2015 under the CUSO RSA, which totaled \$6,092. Recoveries of charged-off loans received by the CUSO from June 2015 through December 2015 and due to us were \$761 and were not paid to us. We utilized those recovery

amounts to offset against amounts that we owed under the CUSO RSA in January 2016.

Projected CUSO RSA Payments. We believe that it is probable that we will make additional payments under the CUSO RSA in the future. We are entitled to all amounts that the CUSO recovers from loans in a particular loan pool made under the CUSO Program that have been charged-off, until all payments that we made under the CUSO RSA with respect to that loan pool have been repaid to us by the CUSO. Pursuant to the CUSO RSA, we have the right to offset amounts that we owe under the CUSO RSA by the amount of recoveries from charged-off loans made under the CUSO Program that are owed, but have not been paid to us.

Based on various assumptions, including the historical and projected performance and collections of the CUSO Student Loans, we believe that we will make payments under the CUSO RSA of approximately:

\$16,000 in 2016, which includes, pursuant to the Sixth Amendment to CUSO RSA, \$6,092 of Regular Payments that were due from June 2015 through December 2015 that we deferred to January 2016, offset by \$761 of recoveries from charged-off loans in 2015 owed to us and \$1,000 of recoveries from charged-off private education loans estimated to be owed to us in 2016;

\$13,000 in 2017, which is net of \$1,000 of recoveries from charged-off private education loans estimated to be owed to us in 2017;

\$13,400 in 2018, which is net of \$1,000 of recoveries from charged-off private education loans estimated to be owed to us in 2018; and

approximately \$97,000 in the aggregate in 2019 and later years.

Our estimates of the future payment amounts under the CUSO RSA and the timing of those payments assume, among other factors, that we do not make any Discharge Payments in 2016 and future years, based on the uncertainty related to the amount of future operating cash flows that will be available to us to make Discharge Payments. If we do make Discharge Payments in any future years, the effect of those Discharge Payments will be to reduce the total amount of our projected future payments under the CUSO RSA.

The estimated amount of future payments under the CUSO RSA assumes that an offset that we made in 2013 of certain payment obligations under the CUSO RSA against the CUSO's obligations owed to us under the Revolving Note will not be determined to have been improper. See *PEAKS Program and CUSO RSA Payments in Certain Periods* below for a further

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discussion of that offset. In the event that offset is determined to be improper, we may be required to pay the CUSO approximately \$10,153, net of approximately \$1,049 of recoveries from charged-off loans, which would be in addition to the estimated payment amounts set forth above.

The estimated amount and timing of future payments and recoveries with respect to the CUSO RSA discussed above are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. The assumptions included, among other things, the following:

the repayment performance of the private education loans made under the CUSO Program;

the timing and rate at which those private education loans will be paid;

the changes in the variable interest rates applicable to those private education loans;

the amounts and timing of collections in the future on those private education loans that have been charged off; and

our ability to utilize the available options for payment of our obligations under the CUSO RSA.

PEAKS Program and CUSO RSA Payments in Certain Periods. The following table sets forth the approximate aggregate amount of guarantee payments, Discharge Payments and Payments on Behalf of Borrowers that were made related to the PEAKS Program and CUSO RSA, in the periods indicated:

Type of Payment	Year Ended December 31,	
	2015	2014
Guarantee:		
PEAKS Program	\$ 30,090	\$ 159,255
CUSO RSA Regular Payments	3,840 ⁽¹⁾	6,562 ⁽²⁾⁽³⁾
CUSO RSA Discharge Payments	9,253	2,577
Payments on Behalf of Borrowers	0	1,832
Total	\$ 43,183	\$ 170,226

- (1) This amount is net of \$521 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA. In addition, we deferred payment of \$6,092 of Regular Payments, that otherwise would have been due between June 8, 2015 and December 31, 2015, to January 2016. We also utilized the amount of the recoveries of charged-off loans received by the CUSO during that period that were not paid to us,

which totaled \$761, to offset against amounts that we owed under the CUSO RSA in January 2016.

(2) This amount is net of \$466 of recoveries from charged-off loans owed to us that we offset against the amount we owed under the CUSO RSA.

(3) Of this amount, \$4,556 was paid prior to the CUSO Consolidation.

Excluding the recoveries of charged-off loans received by the CUSO between June 2015 and December 2015, the CUSO did not remit to us, and we did not offset payments under the CUSO RSA for, the following amounts of recoveries from charged-off loans that were owed to us:

\$0 in the year ended December 31, 2015; and

\$475 in the year ended December 31, 2014.

The amounts of recoveries from charged-off loans that were owed to us by the CUSO, but not paid or offset, as of December 31, 2015 and 2014 were not recorded on our consolidated financial statements, since those amounts were intercompany transactions that were eliminated from our financial statements as a result of the CUSO Consolidation.

In the year ended December 31, 2015 and 2014, we did not offset any amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note. In the first quarter of 2013, we notified the CUSO that we had determined that the CUSO was in default of its obligations to us under the agreement pursuant to which the Revolving Note was issued and, as a result of that default, all amounts under the Revolving Note were immediately due and payable. We also notified the CUSO that we would not make payments under the CUSO RSA until we received credit for the full amount due us under the Revolving Note, based on the provisions of the CUSO Program documents that allow us to set off amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note. At that time, the outstanding amount of the Revolving Note due to us was approximately \$8,200, representing principal and accrued interest.

In response to our notification, the CUSO denied that it was in default and refused our demand to immediately pay the Revolving Note in full. As a consequence, over the period from February 2013 through August 2013, we offset our then current payment obligations under the CUSO RSA and the amount of Discharge Payments we elected to make during that period against all of the CUSO's obligations owed to us under the Revolving Note (the "Offset").

We understand that the CUSO's position is that the Offset was improper, because it has not defaulted and, even if it had defaulted, the assets of the CUSO against which we could offset or exercise our other remedies were limited. We further understand the CUSO's position to be that, because the Offset was improper, we are in default under the CUSO RSA. In April 2013, the CUSO

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notified us that it had taken control of the restricted account containing the cash collateral that we deposited to secure our obligations under the CUSO RSA (the Collateral). To our knowledge, the CUSO has taken no further action related to the Collateral. We believe that our good faith exercise of our right of offset provided for in the CUSO Program documents does not constitute an event of default under the CUSO RSA, and that the CUSO's seizure of control of the restricted account containing the Collateral constitutes an additional default by the CUSO. We cannot assure you, however, that the Offset will ultimately be determined to have been proper. In the event of a default by us under the CUSO RSA related to the Offset, we may be required to pay to the CUSO approximately \$10,153, net of approximately \$1,049 of recoveries from charged-off loans that are owed, but have not been paid, to us. If, instead, the CUSO was to withdraw Collateral in that amount from the restricted bank account, we would be required to deposit that amount of cash in the account to maintain the required level of Collateral.

Litigation. We are subject to various litigation. We cannot assure you of the ultimate outcome of any litigation involving us. Although we believe that our estimates related to any litigation are reasonable, deviations from our estimates could produce a materially different result. Any litigation alleging violations of education or consumer protection laws and/or regulations, misrepresentation, fraud or deceptive practices may also subject our affected campuses to additional regulatory scrutiny. The following is a description of pending litigation that falls outside the scope of litigation incidental to the ordinary course of our business.

On December 22, 2008, we were served with a qui tam action that was filed on July 3, 2007 in the United States District Court for the Southern District of Indiana by a former employee (relator) on behalf of herself and the federal government under the following caption: *United States of America ex rel. Debra Leveski v. ITT Educational Services, Inc.* (the Leveski Litigation). We were served with the Leveski Litigation after the U.S. Department of Justice declined to intervene in the litigation. On June 3, 2008, the relator filed an amended complaint in the Leveski Litigation. On September 23, 2009, the court dismissed the Leveski Litigation without prejudice and gave the relator an opportunity to replead her complaint. On October 8, 2009, the relator filed a second amended complaint. In the second amended complaint, the relator alleges that we violated the False Claims Act, 31 U.S.C. § 3729, *et seq.*, and the HEA by compensating our sales representatives and financial aid administrators with commissions, bonuses or other incentive payments based directly or indirectly on success in securing enrollments or federal financial aid. The relator alleges that all of our revenue derived from the federal student financial aid programs from July 3, 2001 through July 3, 2007 was generated as a result of our violating the HEA. The relator seeks various forms of recovery on behalf of herself and the federal government, including:

treble the amount of unspecified funds paid to us for federal student grants;

treble the amount of unspecified default payments, special allowance payments and interest received by lenders with respect to federal student loans received by our students;

all civil penalties allowed by law; and

attorney's fees and costs.

A qui tam action is a civil lawsuit brought by one or more individuals (a qui tam relator) on behalf of the federal or state government for an alleged submission to the government of a false claim for payment. A qui tam action is always filed under seal and remains under seal, until the government decides whether to intervene in the litigation. Whenever

a relator files a qui tam action, the government typically initiates an investigation in order to determine whether to intervene in the litigation. If the government intervenes, it has primary control over the litigation. If the government declines to intervene, the relator may pursue the litigation on behalf of the government. If the government or the relator is successful in the litigation, the relator receives a portion of the government's recovery.

On August 8, 2011, the district court granted our motion to dismiss all of the relator's claims in the Leveski Litigation for lack of subject-matter jurisdiction and issued a judgment for us. On February 16, 2012, the relator in the Leveski Litigation filed a Notice of Appeal with the 7th Circuit Court of Appeals regarding the final judgment entered by the district court dismissing all claims against us. On March 26, 2012, the district court in the Leveski Litigation awarded us approximately \$395 in sanctions against the relator's attorneys for filing a frivolous lawsuit. Relator's attorneys also appealed this award to the 7th Circuit Court of Appeals. On July 8, 2013, the 7th Circuit Court of Appeals reversed the district court's dismissal of the Leveski Litigation for lack of subject-matter jurisdiction and the award of sanctions against relator's attorneys. In addition, the 7th Circuit Court of Appeals remanded the Leveski Litigation back to the district court for further proceedings.

We have defended, and intend to continue to defend, ourselves vigorously against the allegations made in the complaint.

On March 11, 2013, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of New York under the following caption: *William Koetsch, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.* (the Koetsch Litigation). On April 17, 2013, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of New York under the following caption: *Massachusetts Laborers' Annuity Fund, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.* (the MLAF Litigation). On July 25, 2013, the court consolidated the Koetsch Litigation and MLAF Litigation under the following caption: *In re ITT Educational Services, Inc. Securities Litigation* (the New

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York Securities Litigation), and named the Plumbers and Pipefitters National Pension Fund and Metropolitan Water Reclamation District Retirement Fund as the lead plaintiffs. On October 7, 2013, an amended complaint was filed in the New York Securities Litigation, and on January 15, 2014, a second amended complaint was filed in the New York Securities Litigation. The second amended complaint alleges, among other things, that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Rule 10b-5 promulgated thereunder by:

our failure to properly account for the 2007 RSA, CUSO RSA and PEAKS Program;

employing devices, schemes and artifices to defraud;

making untrue statements of material facts, or omitting material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

making the above statements intentionally or with reckless disregard for the truth;

engaging in acts, practices, and a course of business that operated as a fraud or deceit upon lead plaintiffs and others similarly situated in connection with their purchases of our common stock;

deceiving the investing public, including lead plaintiffs and the purported class, regarding, among other things, our artificially inflated statements of financial strength and understated liabilities; and

causing our common stock to trade at artificially inflated prices and causing the plaintiff and other putative class members to purchase our common stock at inflated prices.

The putative class period in this action is from April 24, 2008 through February 25, 2013. The plaintiffs seek, among other things, the designation of this action as a class action, an award of unspecified compensatory damages, interest, costs and expenses, including counsel fees and expert fees, and such equitable/injunctive and other relief as the court deems appropriate. On July 22, 2014, the district court denied most of our motion to dismiss all of the plaintiffs' claims for failure to state a claim for which relief can be granted. On August 5, 2014, we filed our answer to the second amended complaint denying all of the plaintiffs' claims. Plaintiffs filed their motion for class certification on March 27, 2015. On June 16, 2015, to facilitate the parties' efforts to resolve this action by mediation, the court entered a stipulation and order providing for a three-month stay of all proceedings. On September 14, 2015, the court extended the stay by an additional two months.

Following a mediation which began in the third quarter of 2015, the parties came to an agreement in principle to settle the New York Securities Litigation. On November 2, 2015, the parties in the New York Securities Litigation entered into a Stipulation and Agreement of Settlement (the New York Settlement) to resolve the action in its entirety. Under the terms of the New York Settlement, we and/or our insurers would make a payment of \$16,962 in exchange for the release of claims against the defendants and other released parties, by the plaintiffs and all settlement class members, and for the dismissal of the action with prejudice. On November 2, 2015, the plaintiffs in the New York Securities

Litigation filed the New York Settlement and related exhibits with the court and moved, among other things, for the court to preliminarily approve the New York Settlement, to approve the contents and procedures for notice to potential settlement class members, to certify the New York Securities Litigation as a class action for settlement purposes only, and to schedule a hearing for the court to consider final approval of the New York Settlement. On November 23, 2015, the court entered an order preliminarily approving the New York Settlement and scheduled a hearing for March 8, 2016 to consider final approval of the New York Settlement. Prior to the March 8, 2016 hearing, potential settlement class members (all persons and entities who purchased or otherwise acquired our common stock between April 24, 2008 and February 25, 2013, both dates inclusive (with limited exclusions)) had an opportunity to exclude themselves from participating in the New York Settlement or to raise objections with the court regarding the New York Settlement or any part thereof. On March 8, 2016, the court granted final approval of the New York Settlement and entered an order dismissing the New York Securities Litigation with prejudice.

The New York Settlement contains no admission of liability, and all of the defendants in the New York Securities Litigation have expressly denied, and continue to deny, all allegations of wrongdoing or improper conduct. Our insurance carriers funded a combined \$25,000 collectively towards the settlement payments for the New York Settlement and the Indiana Settlement (defined below). In the event that the approved New York Settlement does not become effective as a result of an appeal or otherwise, all of the defendants intend to continue to defend themselves vigorously against the allegations made in the second amended complaint.

On September 30, 2014, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of Indiana under the following caption: *David Banes, on Behalf of Himself and All Others Similarly Situated v. Kevin M. Modany, et al.* (the Banes Litigation). On October 3, 2014, October 9, 2014 and November 25, 2014, three similar complaints were filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of Indiana under the following captions: *Babulal Tarapara, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc. et al.* (the Tarapara Litigation), *Kumud Jindal, Individually and on Behalf of All Others Similarly Situated v. Kevin Modany, et al.* (the Jindal Litigation) and *Kristopher Hennen, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc. et al.* (the Hennen Litigation). On November 17, 2014, the Tarapara Litigation and the Jindal Litigation were consolidated into the Banes Litigation. On January 21, 2015, the Hennen Litigation was consolidated into that consolidated action (the Indiana Securities Litigation). On December 1, 2014, motions were filed in the Indiana Securities Litigation for the appointment of lead plaintiff and lead counsel. On March 16, 2015, the court appointed a lead plaintiff and lead counsel. Subsequently, the caption for the Indiana Securities Litigation was changed to the following: *In re ITT Educational Services, Inc. Securities Litigation (Indiana)*.

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On May 26, 2015, an amended complaint was filed in the Indiana Securities Litigation. The amended complaint alleges, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder by knowingly or recklessly making false and/or misleading statements and failing to disclose material adverse facts about our business, operations, prospects and financial results. Plaintiffs assert that the defendants engaged in a fraudulent scheme and course of business and that alleged misstatements and/or omissions by the defendants caused members of the putative class to purchase our securities at artificially inflated prices. The amended complaint includes allegations relating to:

the performance of the PEAKS Program and the CUSO Program;

our guarantee obligations under the PEAKS Program and the CUSO Program;

our accounting treatment of the PEAKS Program and the CUSO Program;

consolidation of the PEAKS Trust in our consolidated financial statements;

the impact of the PEAKS Program and the CUSO Program on our liquidity and overall financial condition;

our compliance with Department of Education financial responsibility standards; and

our internal controls over financial reporting.

The putative class period in the Indiana Securities Litigation is from February 26, 2013 through May 12, 2015. The plaintiffs in the Indiana Securities Litigation seek, among other things, the designation of the action as a proper class action, an award of unspecified compensatory damages against all defendants, interest, costs, expenses, counsel fees and expert fees, and such other relief as the court deems proper. On July 14, 2015, to facilitate the parties' efforts to resolve this action by mediation, the court granted a joint motion for a stay of proceedings until October 13, 2015. On October 13, 2015, the court extended the stay to October 27, 2015. On October 27, 2015, the court further extended the stay. On November 3, 2015, due to the filing of the Indiana Settlement (defined below), the stay was lifted.

Following a mediation that began in the third quarter of 2015, the parties came to an agreement in principle to settle the Indiana Securities Litigation. On November 2, 2015, the parties in the Indiana Securities Litigation entered into a Stipulation and Agreement of Settlement (the Indiana Settlement) to resolve the action in its entirety. Under the terms of the Indiana Settlement, we and/or our insurers would make a payment of \$12,538 in exchange for the release of claims against the defendants and other released parties, by the plaintiffs and all settlement class members, and for the dismissal of the action with prejudice. On November 2, 2015, the plaintiffs in the Indiana Securities Litigation filed the Indiana Settlement and related exhibits with the court and moved, among other things, for the court to preliminarily approve the Indiana Settlement, to approve the contents and procedures for notice to potential settlement class members, to certify the Indiana Securities Litigation as a class action for settlement purposes only, and to schedule a hearing for the court to consider final approval of the Indiana Settlement. On November 4, 2015, the court

entered an order preliminarily approving the Indiana Settlement and scheduled a hearing for March 10, 2016 to consider final approval of the Indiana Settlement. Prior to the March 10, 2016 hearing, potential settlement class members (all persons and entities who purchased or otherwise acquired our common stock, purchased or otherwise acquired call options on our common stock, or wrote put options on our common stock, between February 26, 2013 and May 12, 2015, both dates inclusive (with limited exclusions)) had an opportunity to exclude themselves from participating in the Indiana Settlement or to raise objections with the court regarding the Indiana Settlement or any part thereof. On March 10, 2016, the court entered an order finding that the Indiana Settlement is fair and reasonable and was entered into in good faith, and the court stated that a separate order regarding the Indiana Settlement would follow.

The Indiana Settlement contains no admission of liability, and all of the defendants in the Indiana Securities Litigation have expressly denied, and continue to deny, all allegations of wrongdoing or improper conduct. Our insurance carriers funded a combined \$25,000 collectively towards the settlement payments for the Indiana Settlement and the New York Settlement. In the event that the Indiana Settlement does not receive final approval by the court or otherwise does not become effective as a result of an appeal or otherwise, all of the defendants intend to continue to defend themselves vigorously against the allegations made in the amended complaint.

On May 8, 2013, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and two former Directors in the United States District Court for the Southern District of New York under the following caption: *Sasha Wilfred, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al.* (the Wilfred Litigation). On May 27, 2014, a complaint in a similar shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and three former Directors in the United States District Court for the district of Delaware under the following caption: *Janice Nottenkamper, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v Kevin M. Modany, et al.* (the Nottenkamper Litigation).

On August 6, 2013, the parties agreed to stay the Wilfred Litigation until the New York Securities Litigation was dismissed with prejudice or the defendants filed an answer in the New York Securities Litigation. On September 8, 2014, the district court approved the parties' agreement for an additional stay of the Wilfred Litigation, until the earlier of a final disposition of the New York Securities Litigation or 30 days after written notice terminating the stay was provided by any of the parties in the Wilfred Litigation to all other parties. On October 15, 2014, the Wilfred plaintiff terminated the stay. Following plaintiff's termination of the stipulated stay, an amended complaint was filed in the Wilfred Litigation on November 17, 2014. On January 5, 2015, the defendants moved to dismiss or stay the Wilfred Litigation.

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On April 29, 2015, the Nottenkamper Litigation was transferred to the United States District Court for the Southern District of New York. On July 2, 2015, the Wilfred plaintiff requested leave from the court to file a second amended complaint. By order dated July 28, 2015, the court granted plaintiff's request to file an amended complaint and denied the defendants' pending motion to dismiss the earlier complaint as moot. On July 28, 2015, the court also consolidated the Wilfred Litigation and the Nottenkamper Litigation, appointing plaintiff Sasha Wilfred as lead plaintiff in the consolidated action.

On August 21, 2015, lead plaintiff filed a consolidated amended complaint that alleges, among other things, that the defendants violated state law, including breaching their fiduciary duties to us, grossly mismanaging us, abusing their control of us, wasting our corporate assets and being unjustly enriched, by:

causing or allowing us to disseminate to our shareholders materially misleading and inaccurate information relating to a series of risk-sharing agreements through SEC filings, press releases, conference calls, and other public statements and disclosures;

willfully ignoring obvious and pervasive problems with our internal controls and practices and procedures, and failing to make a good faith effort to correct these problems or prevent their recurrence;

violating and breaching fiduciary duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision;

causing or allowing us to misrepresent material facts regarding our financial position and business prospects; and

abandoning their responsibilities and duties with regard to prudently managing our businesses in a manner imposed upon them by law.

The consolidated amended complaint also refers to certain issues and events that arose subsequent to the commencement of the Wilfred Litigation, including among other things, the agreements that we entered into with Mr. Modany and Mr. Fitzpatrick, dated August 4, 2014 and April 29, 2015, respectively, setting forth the terms of their resignations (the Resignation Agreements), the CFPB complaint against us, our submission of a letter of credit to the ED, our restatement of certain financial results, our receipt of a Wells Notice from the SEC, and the SEC complaint against us.

The consolidated amended complaint seeks:

unspecified damages;

restitution;

disgorgement of all profits, benefits and other compensation obtained by the individual defendants;

an order directing us to take all necessary actions to reform and improve our corporate governance and internal procedures; and

costs and disbursements, including attorneys', accountants' and experts' fees, costs and expenses.

On September 16, 2015, plaintiff Janice Nottenkamper was appointed as a co-lead plaintiff in the Wilfred Litigation. On September 16, 2015, the court also entered a stipulation and order providing for a three-month stay of all proceedings to facilitate the parties' efforts to resolve this consolidated action by mediation. On December 11, 2015, the court extended the stay to January 27, 2016.

On December 23, 2014, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but four of our current Directors, and two former Directors in the United States District Court for the Southern District of Indiana under the following caption: *Michelle Lawrence, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al.* (the Lawrence Litigation). The complaint alleges, among other things, that the individual defendants breached their fiduciary duties to us, abused their control, grossly mismanaged us and were unjustly enriched by:

participating in misrepresentation of our business operations;

failing to correct our public statements;

failing to oversee our business and internal controls;

causing us to issue false and misleading statements of material fact in our consolidated financial statements in our quarterly reports;

subjecting us to multiple federal securities fraud class action lawsuits;

causing us to restate our consolidated financial statements in our quarterly reports; and

causing us to receive a Wells Notice from the SEC.

The complaint seeks:

unspecified damages;

restitution;

disgorgement of all profits, benefits and other compensation obtained by the individual defendants;

an order directing us to take all necessary actions to reform and improve our corporate governance and internal procedure, including taking action to strengthen the Board's supervision of operations, procedures for greater shareholder input and for effective oversight of compliance; and

costs and disbursements, including attorneys' and experts' fees, costs and expenses.

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On March 11, 2015, the district court approved the parties' agreement to stay the Lawrence Litigation, until the earlier of: the passage of 30 days after written notice of termination has been provided by any party, or the Indiana Securities Litigation is dismissed with prejudice or an answer in the Indiana Securities Litigation is filed.

On July 1, 2015, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and two former Directors in the Marion Superior Court, Indianapolis, Indiana under the following caption: *William McKee, Derivatively on behalf of ITT Educational Services, Inc. v. Kevin Modany, et al.* (the McKee Litigation). The complaint alleges, among other things, that the individual defendants breached their fiduciary duties to us by:

causing us to engage in unlawful conduct with respect to risky student loan financing programs;

causing us to fail to disclose material information to shareholders regarding our business, financial condition, and accounting procedures;

preparing and disseminating inaccurate press releases and SEC filings;

failing to ensure the existence of appropriate and adequate internal financial controls;

exposing us to substantial investigation costs, huge liability to stock purchasers, regulatory penalties, and the cost of defending the SEC proceeding and the securities litigations; and

damaging our reputation and goodwill in the securities markets.

The complaint seeks:

a declaratory judgment;

restitution;

equitable and/or injunctive relief;

an order directing us to reform and improve corporate governance and internal procedures; and

costs and disbursements, including attorneys', accountants' and experts' fees, costs and expenses.

On August 7, 2015, the court approved the parties' agreement to stay the McKee Litigation, until the earlier of: the passage of 30 days after written notice of termination has been provided by any party, or a settlement of the Indiana Securities Litigation is approved by the court in that action, or the Indiana Securities Litigation is dismissed with prejudice, or an answer in the Indiana Securities Litigation is filed.

On January 21, 2016, the parties in the Wilfred Litigation, Lawrence Litigation, and McKee Litigation all entered into a Stipulation and Agreement of Settlement (the Derivative Settlement) to settle the three shareholder derivative actions discussed above: (1) the Wilfred Litigation, including the Nottenkamper Litigation consolidated thereunder; (2) the Lawrence Litigation; and (3) the McKee Litigation. The proposed Derivative Settlement, which remains subject to court approvals, is intended by the settling parties to fully, finally and forever resolve the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation and to result in the dismissal of those actions with prejudice. Under the terms of the proposed Derivative Settlement, we will implement certain agreed upon corporate governance reforms, to be administered by us and the Board of Directors if the Derivative Settlement is finally approved and becomes effective. Additionally, subject to court approval, we have agreed to pay up to \$1,100 in attorneys' fees and expenses (the Derivative Fee Award) to the plaintiffs' counsel. One of our insurers funded half of the amount of the Derivative Fee Award, on behalf of the individual defendants in the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation.

On January 22, 2016, the Derivative Settlement and related exhibits were filed in the Wilfred Litigation, and the plaintiffs in the Wilfred Litigation moved, among other things, for the court to preliminarily approve the Derivative Settlement, to approve the form and manner of notice to be provided to our shareholders, and to schedule a hearing for the court to consider final approval of the Derivative Settlement. Prior to final court approval, current shareholders will have the opportunity to raise objections, or to otherwise be heard, regarding the terms of the Derivative Settlement and the Derivative Fee Award. If the Derivative Settlement is finally approved by the court in the Wilfred Litigation, the plaintiffs in the Lawrence Litigation and the McKee Litigation will move their respective Indiana courts for the dismissal of their actions with prejudice. Dismissal of all of the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation with prejudice is a material condition of the proposed Derivative Settlement, without which the Derivative Settlement will not become effective. In the event that the Derivative Settlement is not approved by the court, or otherwise does not become effective, the settling parties will be restored to their respective positions in each action as of the date immediately preceding the date of the Derivative Settlement. On January 28, 2016, the court in the Lawrence Litigation entered an order continuing the stay of proceedings in that action unless and until the Derivative Settlement is canceled or terminated. On January 29, 2016, the court in the Wilfred Litigation entered an order preliminarily approving the Derivative Settlement. On February 2, 2016, the court in the McKee Litigation ordered that the McKee plaintiff file an update as to the status of the Derivative Settlement by June 29, 2016. The hearing in the Wilfred Litigation to consider final approval of the Derivative Settlement is scheduled for April 6, 2016.

The Derivative Settlement does not include any admission of the validity of any of the claims the plaintiffs have asserted in the Wilfred Litigation, the Lawrence Litigation, or the McKee Litigation, or of any liability with respect thereto. We have determined that the proposed Derivative Settlement is in our company's best interests, and it is intended to eliminate the uncertainty, distraction, disruption, burden, and expense of further litigation of the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation.

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On December 21, 2015, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and three former Directors in the United States District Court for the Southern District of Indiana under the following caption: *Donnald Canfield, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al.* (the Canfield Litigation). The complaint alleges, among other things, that the individual defendants breached their fiduciary duties to us, and abused their control by:

failing to properly oversee our business;

allowing us to mischaracterize our financial position and business prospects;

causing us to issue false and misleading statements of material fact in SEC filings regarding a series of risk-sharing agreements related to student loan programs;

failing to take sufficient steps to reduce risks associated with student loan default rates;

subjecting us to securities class action lawsuits, government investigations, government enforcement actions, and their associated costs; and

damaging our reputation and goodwill.

The complaint also alleges that the defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder by misrepresenting or omitting material information in the Company's proxy statement filed with the SEC on March 13, 2012.

The complaint seeks:

a declaratory judgment;

unspecified compensatory and exemplary damages;

restitution;

equitable relief;

an order directing us to reform and improve corporate governance and internal procedures; and

costs and disbursements, including attorneys' and experts' fees, costs and expenses.

On January 22, 2016, the defendants in the Canfield Litigation filed a motion to stay the Canfield Litigation pending the approval of the Derivative Settlement for the settlement of the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation. If the stay motion is granted, the parties will report to the court in the Canfield Litigation following approval or disapproval of the Derivative Settlement by the court in the Wilfred Litigation. On February 23, 2016, the court entered an order that no responsive pleading will be due in the Canfield Litigation until after the court's ruling on the stay motion.

Although the Wilfred Litigation, Lawrence Litigation, McKee Litigation, and Canfield Litigation are each brought nominally on behalf of us, we expect to incur defense costs and other expenses in connection with those actions.

On May 18, 2012, we received a Civil Investigative Demand (the "Original CID") from the U.S. Consumer Financial Protection Bureau (the "CFPB"). In September 2013, the CFPB withdrew the Original CID, and we received a new Civil Investigative Demand (the "New CID") from the CFPB. Both the Original CID and the New CID provided that the purpose of the CFPB's investigation was, in part, to determine whether for-profit post-secondary companies, student loan origination and servicing providers, or other unnamed persons have engaged or are engaging in unlawful acts or practices relating to the advertising, marketing, or origination of private student loans. Both the Original CID and the New CID contained broad requests for oral testimony, production of documents and written reports related to private education loans made to our students, internal financing provided to our students and certain other aspects of our business. We provided documentation and other information to the CFPB, while preserving our rights to object to its inquiry.

On February 26, 2014, the CFPB filed a complaint against us in the United States District Court for the Southern District of Indiana under the following caption: *Consumer Financial Protection Bureau v. ITT Educational Services, Inc.* (the "CFPB Litigation"). The complaint claimed, among other things, that we violated:

Section 1036(a)(1) of the Consumer Financial Protection Act of 2010 (the "CFPA"), 12 U.S.C. § 5536(a)(1), which prohibits unfair, deceptive and abusive acts and practices, from July 21, 2011 through December 2011, by:

subjecting consumers to undue influence or coercing them into taking out private education loans through a variety of unfair acts and practices designed to interfere with the consumers' ability to make informed, uncoerced choices;

taking unreasonable advantage of consumers' inability to protect their interest in selecting or using the private education loans; and

taking unreasonable advantage of consumers' reasonable reliance on us to act in the consumers' interests; and

the Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq.*, and Regulation Z thereunder, 12 C.F.R. Part 1026, which require certain disclosures to be made in writing to consumers in connection with the extension of consumer credit, since March 2009, by failing to disclose a discount that constituted a finance charge.

We filed a motion to dismiss the CFPB Litigation on several grounds. On March 6, 2015, the court issued an order denying our motion in part and granting it in part, including by dismissing the CFPB's claim under the Truth in Lending Act. On April 8, 2015, we filed a notice of appeal to the United States Court for the Seventh Circuit from the order on the motion to dismiss. We have defended, and intend to continue to defend, ourselves vigorously against the remaining allegations made in the complaint.

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On February 27, 2014, the New Mexico Attorney General filed a complaint against us in the District Court of New Mexico under the following caption: *State of New Mexico, ex rel. Gary K King, Attorney General v. ITT Educational Services, Inc., et al.* (the New Mexico Litigation). On April 4, 2014, we removed the New Mexico Litigation to the U.S. District Court for the District of New Mexico. In April 2014, the Attorney General filed a motion to remand the New Mexico Litigation to the District Court of New Mexico. On June 30, 2015, the U.S. District Court remanded the New Mexico Litigation back to the state District Court. The complaint alleges, among other things, that we engaged in a pattern and practice of exploiting New Mexico consumers by using deceptive, unfair, unconscionable and unlawful business practices in the marketing, sale, provision and financing of education goods and services in violation of New Mexico's Unfair Practices Act. In particular, the complaint contains allegations that:

we misrepresented matters related to our nursing education program, including, without limitation, its programmatic accreditation status, the transferability of credits earned in the program and the curriculum of the program;

we misrepresented the terms of the financial aid available to students and the cost of our programs;

we engaged in unfair or deceptive trade practices;

we failed to issue refunds; and

our form enrollment agreement contained unenforceable and unconscionable provisions.

The complaint seeks:

an order declaring portions of our enrollment agreement illusory, unconscionable and unenforceable;

preliminary and permanent injunctive relief;

disgorgement of unjust enrichment amounts;

unspecified civil penalty amounts;

restitution; and

reasonable costs, including investigative costs.

On July 30, 2015, we filed a motion to dismiss the New Mexico Litigation on several grounds and a motion to compel arbitration. On December 8, 2015, the court denied the motion to dismiss and the motion to compel arbitration. On December 11, 2015, we filed a notice of appeal challenging the denial of our motion to compel arbitration. That appeal is pending in the court of appeals. On January 6, 2016, the State District Court issued an order providing for a stay of the case pending resolution of our appeal. The Attorney General disputes that a stay is in effect and has filed a motion asking the State District Court to proceed with the nonarbitrable claims. We opposed the Attorney General's motion to proceed.

We have defended, and intend to continue to defend, ourselves vigorously against the allegations made in the complaint.

On December 17, 2013, a complaint was filed against us in a purported class action in the Superior Court of the State of California for the County of Los Angeles under the following caption: *La Sondra Gallien, an individual, James Rayonez, an individual, Giovanni Chilin, an individual, on behalf of themselves and on behalf of all persons similarly situated v. ITT Educational Services, Inc., et al.* (the Gallien Litigation). The plaintiffs filed an amended complaint on February 13, 2014. The amended complaint alleges, among other things, that under California law, we:

failed to pay wages owed;

failed to pay overtime compensation;

failed to provide meal and rest periods;

failed to provide itemized employee wage statements;

engaged in unlawful business practices; and

are liable for civil penalties under the California Private Attorney General Act.

The purported class includes recruiting representatives employed by us during the period of December 17, 2009 through December 17, 2013. The amended complaint seeks:

compensatory damages, including lost wages and other losses;

general damages;

pay for missed meal and rest periods;

restitution;

liquidated damages;

statutory penalties;

interest;

attorneys' fees, cost and expenses;

civil and statutory penalties;

injunctive relief; and

such other and further relief as the court may deem equitable and appropriate.

Following a mediation that began in the third quarter of 2015, the parties came to an agreement in principle to settle the Gallien Litigation on a class-wide basis for \$400. On October 28, 2015, the parties executed a Stipulation of Class Action Settlement (the "Gallien Settlement") to document the terms and conditions of the settlement. In connection with the Gallien Settlement and subject to court approval, the settlement is based on claims made with a specific reversion of funds paid back to us, depending on the number of claims made by settlement class members for individual settlement payments. Under the terms specified in the Gallien

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Settlement, 55% of a net settlement amount of approximately \$204 must be paid to settlement class members in the form of individual settlement payments. In the event the settlement is not approved by the court or otherwise does not become effective, we intend to continue to defend ourselves vigorously against the allegations made in the amended complaint.

On May 12, 2015, the SEC filed a civil enforcement action against us, our Chief Executive Officer, Kevin M. Modany, and our former Chief Financial Officer, Daniel M. Fitzpatrick, in the United States District Court for the Southern District of Indiana under the following caption: *United States Securities and Exchange Commission v. ITT Educational Services, Inc., Kevin M. Modany and Daniel M. Fitzpatrick* (the "SEC Litigation"). As we previously disclosed, we received several SEC subpoenas beginning on February 8, 2013. The SEC's subpoenas requested the production of documents and communications that, among other things, relate to our actions, disclosures, and accounting associated with the CUSO Program and the PEAKS Program. We provided the information requested, including testimony of senior employees. On August 7, 2014, we received a "Wells Notice" from the Staff of the SEC notifying us that the Staff had made a preliminary determination to recommend that the SEC file an enforcement action against us. According to the Staff, the enforcement action would allege violations of Sections 10(b), 13(a) and 13(b)(2) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13 and 13a-15 under the Exchange Act. Under the SEC's procedures, a recipient of a Wells Notice has an opportunity to respond in the form of a Wells submission that seeks to persuade the SEC that such an action should not be brought. We made submissions to the Staff in response to the Wells Notice we received that set forth why the factual record does not support the enforcement action recommended by the Staff and explained that any of our perceived shortcomings were acts taken in good faith. Our Chief Executive Officer and former Chief Financial Officer each made similar submissions.

The SEC Litigation relates to the matters addressed in the Wells Notice that we received, and the complaint alleges violations of Sections 10(b), 13(a) and 13(b)(2) of the Exchange Act; Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act; and Section 17(a) of the Securities Act. Among other assertions, the complaint alleges that we engaged in a fraudulent scheme and course of business and made various false and misleading statements to our investors relating to the CUSO Program and the PEAKS Program. The remedies sought by the SEC in the complaint include:

a finding that each of the defendants committed the alleged violations;

an injunction permanently restraining and enjoining each of the defendants from violating, directly or indirectly, the laws and rules alleged in the complaint;

an order that Messrs. Modany and Fitzpatrick be permanently prohibited from acting as an officer or director of any public company;

disgorgement of any and all ill-gotten gains, together with pre- and post-judgment interest, derived from the improper conduct alleged in the complaint;

civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d) of the Exchange Act in an amount to be determined by the court, plus post-judgment interest;

an order that Messrs. Modany and Fitzpatrick reimburse us for all bonuses, incentive-based and equity-based compensation, and/or profits realized from their sale of our stock pursuant to Section 304 of the Sarbanes-Oxley Act of 2002; and

such other relief as the court may deem just or appropriate.

On July 17, 2015, we filed our answer in the SEC Litigation in which we denied all of the SEC's claims.

We intend to defend ourselves vigorously against the claims in the SEC Litigation. Nevertheless, we cannot predict the outcome of any legal action or whether the matter will result in any settlement. We cannot assure you that the ultimate outcome of the SEC Litigation or any settlement will not have a material adverse effect on our financial condition, results of operations and/or cash flows.

In September 2015, we received a CID from the U.S. Department of Justice (DOJ). The CID provides that the purpose of the investigation is to determine whether there is or has been a violation of the False Claims Act and whether we knowingly submitted false statements in violation of the ED's Program Participation Agreement regulations. The CID contained requests for production of documents and answers to interrogatories that we believe are principally related to our compliance with the ED's compensation regulations and was related to a sealed qui tam action. We believe that our practices with respect to compensation matters are in compliance with applicable laws and regulations, and we cooperated with the DOJ in responding to the CID. On January 15, 2016, the United States District Court for the Middle District of Florida issued an order unsealing the underlying qui tam case, revealing that the DOJ has declined to intervene in the qui tam action. Accordingly, the DOJ has closed its investigation. The court also ordered that the qui tam False Claims Act complaint, which was filed by a former disgruntled employee, be served on defendants ITT Educational Services, Inc. and ITT Technical Institute. The qui tam action was filed on April 8, 2015 in the United States District Court for the Middle District of Florida under the following caption: *United States of America ex rel. Rodney Lipscomb v. ITT Educational Services, Inc.* (the Lipscomb Litigation) The relator alleges in the complaint, among other things, that we received Title IV federal financial aid in violation of various Title IV condition of payment rules and regulations and thereby violated the False Claims Act, 31 U.S.C. §3729, et. seq., by:

enrolling students who were unlikely to succeed;

improperly pressuring students to enroll;

misrepresenting our credit transfer policy to students;

misrepresenting our curriculum and graduate employment opportunities to students;

changing, refusing to explain, and misrepresenting students' financial obligations;

offering improper promotions and compensation incentives to admissions representatives based on the number of students they enrolled; and

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fabricating graduate placement rate reports.

The relator also alleges that we retaliated against him and violated the False Claims Act by terminating his employment after he allegedly reported illegal and unethical practices to our management.

The relator seeks various forms of recovery on behalf of himself and the federal government, including treble damages and civil penalties; the maximum amount pursuant to 31 U.S.C. §3730(d); the maximum amount pursuant to 31 U.S.C. §3730(h), including two times back pay; interest; expenses; attorney's fees; and costs. The complaint has not been served. We vehemently deny the allegations in the qui tam action and intend to vigorously defend ourselves against these claims.

Kevin M. Modany and Daniel M. Fitzpatrick are named in the New York Securities Litigation, Indiana Securities Litigation, Wilfred, Lawrence Litigation, McKee Litigation, Canfield Litigation and SEC Litigation. John E. Dean is also named in the Wilfred Litigation, Lawrence Litigation, McKee Litigation, and Canfield Litigation.

There can be no assurance that the ultimate outcome of the Leveski Litigation, New York Securities Litigation, Indiana Securities Litigation, Wilfred Litigation, Lawrence Litigation, McKee Litigation, Canfield Litigation, CFPB Litigation, New Mexico Litigation, Gallien Litigation, SEC Litigation, Lipscomb Litigation or other actions (including other actions under federal or state securities laws) will not have a material adverse effect on our financial condition, results of operations or cash flows.

Certain of our current and former officers and Directors are or may become a party in the actions described above and/or are or may become subject to government investigations. Our By-laws and Restated Certificate of Incorporation obligate us to indemnify our officers and Directors to the fullest extent permitted by Delaware law, provided that their conduct complied with certain requirements. We are obligated to advance defense costs to our officers and Directors, subject to the individual's obligation to repay such amount if it is ultimately determined that the individual was not entitled to indemnification. In addition, our indemnity obligation can, under certain circumstances, include indemnifiable judgments, penalties, fines and amounts paid in settlement in connection with those actions and investigations.

Government Investigations. We are subject to investigations and claims of non-compliance with regulatory standards and other actions brought by regulatory agencies. The more significant pending investigations, claims and actions are described below. If the results of any investigations, claims and/or actions are unfavorable to us, we may be required to pay money damages or be subject to fines, penalties, injunctions, operational limitations, loss of eligibility to participate in federal or state financial aid programs, debarments, additional oversight and reporting, or other civil and criminal sanctions. Those sanctions could have a material adverse effect on our financial condition, results of operations and cash flows.

On October 30, 2012, we received a Civil Investigative Demand (CID) from the Massachusetts Office of the Attorney General (MAG). The MAG's CID provides that the MAG is investigating allegations that we may have violated Massachusetts General Laws, Chapter 93A, Section 2(a) by engaging in unfair or deceptive practices in connection with marketing and advertising job placement and student outcomes, the recruitment of students, and the financing of education. The MAG has since requested additional information from us, including through two follow up CIDs. The MAG's CID contains broad requests for production of documents related to our students in Massachusetts, including the financial aid available to those students, our recruitment of those students, the career services that we offer to those students, our marketing and advertising, the retention and graduation rates of those students and many other aspects of our business. We are cooperating with the MAG in its investigation, and we have provided documentation, communications and other information to the MAG in response to the CID.

On March 9, 2016, we received from the MAG, a statutory notice of intention to file suit. According to the statutory notice, the MAG has reason to believe that from 2010 through 2013, we violated the Massachusetts Consumer Protection Act, M.G.L. c.93A§2 by, among other things and without limitation:

engaging in unfair and harassing sales tactics;

making false and/or misleading representations to prospective students for our Computer Network Systems program concerning placement rates, salaries and the quality of the program and instruction;
and

unfairly steering Massachusetts student borrowers to expensive private loans.

We believe that our acts and practices relating to our students in Massachusetts are lawful. There can be no assurance, however, that the ultimate outcome of the MAG investigation, including related to its intention to file suit, will not have a material adverse effect on our financial condition, results of operations and/or cash flows.

In January, February, April and May 2014, and in February, March and June 2015 we received subpoenas and/or CIDs from the Attorneys General of Arkansas, Arizona, Colorado, Connecticut, District of Columbia, Hawaii, Idaho, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Tennessee and Washington under the authority of each state's consumer protection statutes. The Attorney General of the Commonwealth of Kentucky has informed us that it will serve as the point of contact for the multistate group to respond to questions relating to the subpoenas and CIDs. The subpoenas and CIDs

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contain broad requests for information and the production of documents related to our students and practices, including marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, programs, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates, as well as many other aspects of our business. We believe that several other companies in the proprietary postsecondary education sector have received similar subpoenas and CIDs. We are cooperating with the Attorneys General of the states involved. The ultimate outcome of the state Attorneys General investigation, however, could have a material adverse effect on our financial condition, results of operations and/or cash flows.

16. Risks and Uncertainties

Many of the amounts of assets, liabilities, revenue and expenses reported in our consolidated financial statements are based on estimates and assumptions that affect the amounts reported. We are subject to risks and uncertainties that could affect amounts reported in our consolidated financial statements in future periods. Our future performance, results of operations, financial condition, cash flows, liquidity, capital resources, ability to meet our obligations and ability to comply with covenants, metrics and regulatory requirements are subject to significant risks and uncertainties that could cause actual results to be materially different from our estimated results. Those significant risks and uncertainties include, but are not limited to, the following:

The PEAKS Consolidation and other factors, among other things:

resulted in violations by us of covenants under the Amended Credit Agreement, for which we have obtained waivers and amendments relating to those violations;

have negatively impacted our compliance with:

the ED's financial responsibility measurements, primarily our institutions' composite score; and

our compliance with the financial requirements of certain state education and professional licensing authorities (SAs); and

have negatively impacted the financial metrics to which we are subject under the PEAKS Program and the CUSO RSA.

See Note 12 Debt and Note 15 Commitments and Contingencies, for additional information.

The CUSO Consolidation, which could negatively impact our compliance with:

covenants under the Financing Agreement;

the ED's financial responsibility measurements, primarily our institutions' composite score;

the financial requirements of certain SAs; and

the financial metrics to which we are subject under the PEAKS Program and the CUSO RSA.

See Note 8 - Variable Interest Entities, for additional information.

Our institutions' failure to submit their 2013 audited consolidated financial statements and 2013 Compliance Audits to the ED by the due date resulted in sanctions imposed by the ED on our institutions that include, among other things, our institutions having to submit a letter of credit, being placed on heightened cash monitoring (HCM) and being provisionally certified. We caused the ED Letter of Credit to be issued on October 31, 2014, but it has subsequently been replaced by the ED Agreement. The term of the ED Agreement ends on November 4, 2019. We have implemented procedures to address HCM, which requirements are not expected to significantly impact the timing of our receipt of Title IV Program funds. See Note 12 - Debt, for additional information.

On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. The letter also states that we are required to provide certain additional information and reporting to the ED on a regular basis. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED.

As of December 31, 2015, \$79,708 was held in an escrow account by the ED. The funds held are not available for use by us, and could be used by the ED if certain conditions are met. See Note 15 - Commitments and Contingencies for additional information.

We are subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, guarantee arrangements, tax matters and employee-related matters, among others. See Note 15 - Commitments and Contingencies, for a further discussion of certain litigation and government investigations to which we are subject.

Although we have consolidated both the PEAKS Trust and the CUSO, and we no longer record a contingent liability related to those programs on our Consolidated Balance Sheets, our significant guarantee obligations under the PEAKS Guarantee

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and the CUSO RSA (collectively, the RSAs) remain in effect. In 2015, we made payments of \$30,090 under the PEAKS Guarantee, and \$13,093, net of \$521 of recoveries owed to us that we offset against amounts that we owed to the CUSO, related to the CUSO RSA. Based on various assumptions, including the historical and projected performance and collection of the PEAKS Trust Student Loans, we believe that we will make payments under the PEAKS Guarantee of approximately \$11,700 in 2016 and approximately \$100 in 2017. In addition, based upon various assumptions, including the historical and projected performance and collections of the private education loans under the CUSO Program, we believe that we will make payments under the CUSO RSA, net of recoveries, of approximately \$16,000 in 2016 and \$13,000 in 2017. See Note 12 Debt and Note 15 Commitments and Contingencies for a further discussion of the RSAs and estimated payment amounts.

We had negative working capital as of December 31, 2015 and 2014, primarily due to the impact of the Consolidated VIEs.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our payment obligations under the RSAs, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use to make payments under the RSAs or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date that this Annual Report on Form 10-K was filed with the SEC. Accordingly, our consolidated financial statements contained in this Annual Report on Form 10-K were prepared on the basis that we will continue to operate as a going concern. There can be no assurance, however, that the ultimate outcome of those events, whether individually or in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Table of Contents**SCHEDULE II****ITT EDUCATIONAL SERVICES, INC.****VALUATION AND QUALIFYING ACCOUNTS****FOR THE THREE YEARS ENDED DECEMBER 31, 2015****(Amounts in thousands)**

Description	Balance at Beginning of Period	Charged To Expenses	Write-offs	Balance at End of Period
Allowance for Doubtful Accounts:				
Year Ended December 31, 2015	\$ 2,351	\$ 35,195	\$ (37,278)	\$ 268
Year Ended December 31, 2014	\$ 9,174	\$ 63,928	\$ (70,751)	\$ 2,351
Year Ended December 31, 2013	\$ 15,663	\$ 67,640	\$ (74,129)	\$ 9,174

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ITT EDUCATIONAL SERVICES, INC.

QUARTERLY FINANCIAL RESULTS

FOR 2015 AND 2014

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended				
	March 31	June 30	Sept 30	Dec 31	Year
2015 ⁽¹⁾					
Revenue	\$ 229,975	\$ 214,231	\$ 203,178	\$ 202,442	\$ 849,826
Cost of educational services	103,553	101,865	93,274	91,918	390,610
Student services and administrative expenses	90,252	91,408	84,622	77,394	343,676
Goodwill and asset impairment	0	0	5,203	0	5,203
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters	7,286	6,005	6,813	5,989	26,093
Loss related to loan program guarantees	0	0	0	0	0
Provision for private education loan losses	1,244	3,313	754	(228)	5,083
Operating income	27,640	11,640	12,512	27,369	79,161
Interest income	13	22	22	29	86
Interest (expense)	(10,388)	(9,991)	(9,709)	(9,759)	(39,847)
Income before provision for income taxes	17,265	1,671	2,825	17,639	39,400
Provision for income taxes	6,818	955	1,137	7,192	16,102
Net income	\$ 10,447	\$ 716	\$ 1,688	\$ 10,447	\$ 23,298
Earnings per share:					
Basic	\$ 0.44	\$ 0.03	\$ 0.07	\$ 0.44	\$ 0.99
Diluted	\$ 0.44	\$ 0.03	\$ 0.07	\$ 0.44	\$ 0.97

	Three Months Ended				
	March 31	June 30	Sept 30	Dec 31	Year
2014 ⁽²⁾					
Revenue	\$ 237,923	\$ 238,096	\$ 242,561	\$ 243,203	\$ 961,783
Cost of educational services	120,115	116,276	117,539	106,852	460,782
Student services and administrative expenses	99,238	97,547	100,440	91,891	389,116
Goodwill and asset impairment	0	0	0	2,454	2,454
Settlements and legal and professional fees related to certain lawsuits, investigations and accounting matters	5,547	8,380	11,269	6,812	32,008

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Loss related to loan program guarantees	0	0	2,019	0	2,019
Provision for private education loan losses	0	9,071	4,511	568	14,150
Operating income	13,023	6,822	6,783	34,626	61,254
Gain on consolidation of variable interest entities	0	0	16,631	0	16,631
Interest income	19	15	17	14	65
Interest (expense)	(11,812)	(7,211)	(9,292)	(9,493)	(37,808)
Income (loss) before provision for income taxes	1,230	(374)	14,139	25,147	40,142
Provision (benefit) for income taxes	471	(222)	6,017	10,556	16,822
Net income (loss)	\$ 759	\$ (152)	\$ 8,122	\$ 14,591	\$ 23,320
Earnings (loss) per share:					
Basic	\$ 0.03	\$ (0.01)	\$ 0.35	\$ 0.62	\$ 0.99
Diluted	\$ 0.03	\$ (0.01)	\$ 0.34	\$ 0.62	\$ 0.98

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- (1) The amounts shown for the fiscal quarters ended March 31, 2015, June 30, 2015 and September 30, 2015 are the restated amounts, as reported in the amended Quarterly Reports on Form 10-Q (i.e., Form 10-Q/As) for the fiscal quarters ended March 31, 2015, June 30, 2015 and September 30, 2015, as filed with the SEC.
- (2) The amounts shown for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014 are the restated amounts, as reported in the amended Quarterly Reports on Form 10-Q (i.e., Form 10-Q/As) for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014, as filed with the SEC. The amounts shown for the fiscal year ended December 31, 2014 are the restated amounts, as reported in the amended Annual Report on Form 10-K (i.e., Form 10-K/A) for the fiscal year ended December 31, 2014, as filed with the SEC.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ITT Educational Services, Inc.

By: /s/ Kevin M. Modany
Kevin M. Modany
Chief Executive Officer

Dated: March 15, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Kevin M. Modany Kevin M. Modany	Chief Executive Officer (Principal Executive Officer)	March 15, 2016
/s/ Rocco F. Tarasi, III Rocco F. Tarasi, III	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2016
/s/ Angela K. Knowlton Angela K. Knowlton	Senior Vice President, Controller and Treasurer (Principal Accounting Officer)	March 15, 2016
/s/ C. David Brown C. David Brown	Director	March 15, 2016
/s/ Jerry M. Cohen Jerry M. Cohen	Director	March 15, 2016
/s/ John F. Cozzi John F. Cozzi	Director	March 15, 2016
/s/ John E. Dean John E. Dean	Executive Chairman and Director	March 15, 2016
/s/ Joanna T. Lau Joanna T. Lau	Director	March 15, 2016
/s/ Thomas I. Morgan Thomas I. Morgan	Director	March 15, 2016
/s/ Samuel L. Odle Samuel L. Odle	Director	March 15, 2016

/s/ Vin Weber
Vin Weber

Director

March 15, 2016

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Exhibit No.	Description	Incorporated by Reference From			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation, as Amended to Date	10-Q*	3.1	7/29/05	
3.2	Restated By-Laws, as Amended to Date	8-K*	3.2	7/22/11	
10.1	** 1997 ITT Educational Services, Inc. Incentive Stock Plan	10-Q*	10.8	8/8/97	
10.2	** First Amendment to the 1997 ITT Educational Services, Inc. Incentive Stock Plan	10-Q*	10.38	7/17/03	
10.3	** Second Amendment to 1997 ITT Educational Services, Inc. Incentive Stock Plan	10-Q*	10.58	10/26/06	
10.4	** 1999 Outside Directors Stock Option Plan	S-8***	4.3	8/10/99	
10.5	** First Amendment to the 1999 Outside Directors Stock Option Plan	10-Q*	10.37	7/17/03	
10.6	** Second Amendment to the 1999 Outside Directors Stock Option Plan	10-Q*	10.42	4/27/04	
10.7	** Third Amendment to the 1999 Outside Directors Stock Option Plan	8-K*	10.47	1/28/05	
10.8	** 2006 ITT Educational Services, Inc. Equity Compensation Plan	8-K*	10.55	5/10/06	
10.9	** First Amendment to 2006 ITT Educational Services, Inc. Equity Compensation Plan	10-Q*	10.57	10/26/06	
10.10	** Second Amendment to 2006 ITT Educational Services, Inc. Equity Compensation Plan	10-Q*	10.61	7/26/07	
10.11	** Third Amendment to 2006 ITT Educational Services, Inc. Equity Compensation Plan	10-K*	10.32	2/18/11	
10.12	** Fourth Amendment to 2006 ITT Educational Services, Inc. Equity Compensation Plan	10-K*	10.12	2/24/12	
10.13	** ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	8-K*	10.1	5/7/13	
10.14	** First Amendment to ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	10-Q*	10.10	4/29/15	

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10.15	**	Second Amendment to ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	10-Q*	10.1	6/12/15
10.16	**	Form of Nonqualified Stock Option Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use prior to November 24, 2010)	10-Q*	10.53	5/1/06
10.17	**	Form of Nonqualified Stock Option Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use November 24, 2010 - January 23, 2012)	10-K*	10.35	2/18/11
10.18	**	Form of Nonqualified Stock Option Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use after January 23, 2012)	10-K*	10.15	2/24/12
10.19	**	Form of Nonqualified Stock Option Award Agreement under the ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	8-K*	10.2	5/7/13
10.20	**	Form of Restricted Stock Unit Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use prior to January 17, 2011)	10-Q*	10.59	7/26/07
10.21	**	Form of Restricted Stock Unit Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use January 17, 2011 - January 23, 2012)	10-K*	10.33	2/18/11
10.22	**	Form of Restricted Stock Unit Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use after January 23, 2012)	10-K*	10.18	2/24/12
10.23	**	Form of Restricted Stock Unit Award Agreement under the ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	8-K*	10.3	5/7/13

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10.24	** Form of Amendment to Certain Restricted Stock Unit Award Agreements	10-K*	10.22	10/16/14	
10.25	** Form of Restricted Stock Award Agreement under the 2006 ITT Educational Services, Inc. Equity Compensation Plan (for use after November 24, 2010)	10-K*	10.34	2/18/11	
10.26	** Form of Restricted Stock Award Agreement under the ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan	8-K*	10.4	5/7/13	
10.27	** Restated ESI 401(k) Plan	10-K*	10.20	2/24/12	
10.28	** First Amendment of ESI 401(k) Plan	10-Q*	10.1	7/26/13	
10.29	** Second Amendment of ESI 401(k) Plan	10-K*	10.27	10/16/14	
10.30	** Third Amendment of ESI 401(k) Plan	10-Q*	10.11	4/29/15	
10.31	** Fourth Amendment of ESI 401(k) Plan				X
10.32	** ESI Excess Savings Plan 2008 Restatement	10-K*	10.15	2/21/08	
10.33	** Restated ESI Pension Plan	10-K*	10.22	2/24/12	
10.34	** First Amendment of ESI Pension Plan	10-Q*	10.1	7/27/12	
10.35	** ESI Excess Pension Plan 2008 Restatement	10-K*	10.19	2/21/08	
10.36	** First Amendment to ESI Excess Pension Plan 2008 Restatement	10-Q*	10.23	7/24/08	
10.37	** ESI Executive Deferred Bonus Compensation Plan 2008 Restatement	10-K*	10.22	2/21/08	
10.38	** ESI Non-Employee Directors Deferred Compensation Plan 2008 Restatement	10-K*	10.21	2/21/08	
10.39	** ITT Educational Services, Inc. Senior Executive Severance Plan	10-Q*	10.26	10/25/07	
10.40	** First Amendment to the ITT Educational Services, Inc. Senior Executive Severance Plan	10-K*	10.28	2/24/12	
10.41	** Summary of Certain Director and Executive Compensation				X
10.42	Trade Name and Service Mark License Agreement between ITT/ESI and ITT Sheraton Corporation	10-Q*	10.11	7/27/98	

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10.43	First Amendment to Trade Name and Service Mark License Agreement between ITT/ESI and ITT Sheraton Corporation	10-K*	10.18	2/19/99
10.44	Second Amendment to Trade Name and Service Mark License Agreement between ITT/ESI and ITT Manufacturing Enterprises, Inc. (assignee of ITT Sheraton Corporation)	10-Q*	10.24	10/31/00
10.45	Financing Agreement, dated as of December 4, 2014, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	8-K*	10.1	12/5/14
10.46	Amendment No. 1 to Financing Agreement, dated as of December 23, 2014, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	8-K*	10.2	3/18/15
10.47	Amendment No. 2 to Financing Agreement, dated as of March 17, 2015, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	8-K*	10.1	3/18/15
10.48	Amendment No. 3 to Financing Agreement, dated as of September 18, 2015, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	8-K*	10.1	9/21/15

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10.49	Amendment No. 4 to Financing Agreement, dated as of December 31, 2015, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	8-K*	10.1	12/31/15
10.50	Limited Consent to Financing Agreement, dated as of May 26, 2015, by and among ITT Educational Services, Inc., the subsidiary guarantors party thereto, Cerberus Business Finance, LLC, as administrative agent and collateral agent, and the lenders party thereto	10-K*	10.46	5/29/15
10.51	Credit Agreement, dated as of March 21, 2012, among ITT Educational Services, Inc., the lenders party thereto, JPMorgan Chase Bank, N.A. as administrative agent, Bank of America, N.A., as syndication agent and Wells Fargo, N.A., as documentation agent	8-K*	10.1	3/27/12
10.52	First Amendment to Credit Agreement, dated as of March 31, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	8-K*	10.1	4/4/14
10.53	Second Amendment to Credit Agreement, dated as of May 29, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	8-K*	10.1	6/4/14
10.54	Third Amendment to Credit Agreement, Consent and Waiver, dated as of June 30, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	8-K*	10.1	7/2/14

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10.55	Fourth Amendment to Credit Agreement, Consent and Waiver, dated as of July 30, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	8-K*	10.1	8/1/14
10.56	Fifth Amendment to Credit Agreement and Consent, dated as of September 15, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	8-K*	10.1	9/19/14
10.57	Consent to Credit Agreement, entered into as of October 15, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	10-Q*	10.5	11/14/14
10.58	Consent to Credit Agreement, entered into as of November 14, 2014, by and among ITT Educational Services, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A. as administrative agent	10.Q*	10.3	11/19/14
10.59	Guarantee Agreement, dated as of January 20, 2010, between ITT Educational Services, Inc. and Deutsche Bank Trust Company Americas, as indenture trustee and collateral agent	10-K*	10.47	10/16/14
10.60	Amended and Restated Indenture and Credit Agreement, dated as of December 31, 2010, by and among PEAKS Trust 2009-1, Deutsche Bank Trust Company Americas, as indenture trustee and collateral agent, and Deutsche Bank National Trust Company, as lender trustee	10-K*	10.48	10/16/14
10.61	Subordinated Note Purchase Agreement, dated as of January 20, 2010, between ITT Educational Services, Inc. and PEAKS Trust 2009-1	10-K*	10.49	10/16/14

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10.62	Agreement for Servicing Private Student Loans, dated as of December 10, 2011, by and among PEAKS Trust 2009-1, Deutsche Bank Trust Company Americas, as indenture trustee and collateral agent, ITT Educational Services, Inc. and First Associates Loan Servicing, LLC	10-K*	10.50	10/16/14
10.63	Purchase Obligation Agreement, dated as of January 20, 2010, by and among ITT Educational Services, Inc., Deutsche Bank Trust Company Americas, as indenture trustee and collateral agent, and the senior creditors signatory thereto	10-K*	10.51	10/16/14
10.64	Letter Agreement, dated as of March 17, 2014, between ITT Educational Services, Inc., Deutsche Bank Trust Company Americas, as indenture trustee and collateral agent, and the holders of the senior debt signatory thereto	8-K*	10.1	3/21/14
10.65	Risk Sharing Agreement, dated as of February 20, 2009, between ITT Educational Services, Inc. and Student CU Connect CUSO, LLC, with the First Amendment, Second Amendment and Third Amendment thereto	10-K*	10.53	10/16/14
10.66	Fourth Amendment to Risk Sharing Agreement, dated as of November 6, 2014, by and between ITT Educational Services, Inc. and Student CU Connect CUSO, LLC	10-Q*	10.4	11/14/14
10.67	Fifth Amendment to Risk Sharing Agreement, dated as of March 17, 2015 by and between ITT Educational Services, Inc. and Student CU Connect CUSO, LLC	8-K*	10.3	3/18/15

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10.68	Sixth Amendment to Risk Sharing Agreement, dated as of June 8, 2015 by and between ITT Educational Services, Inc. and Student CU Connect, CUSO, LLC	10-Q*	10.2	6/12/15
10.69	Financing Program Agreement, dated as of February 20, 2009, between ITT Educational Services, Inc. and Student CU Connect CUSO, LLC, with the First Amendment, Second Amendment and Third Amendment thereto	10-K*	10.54	10/16/14
10.70	Loan and Security Agreement, dated as of May 18, 2009, between ITT Educational Services, Inc. and Student CU Connect CUSO, LLC, with the First Amendment, Second Amendment and Third Amendment thereto	10-K*	10.55	10/16/14
10.71	Agreement for Servicing Private Student Loans, dated as of May 18, 2012, by and between First Associates Loan Servicing, LLC and Student CU Connect CUSO, LLC	10-K*	10.56	10/16/14
10.72	** Letter Agreement, dated August 4, 2014, by and between ITT Educational Services, Inc. and Kevin M. Modany	8-K*	10.1	8/5/14
10.73	** Amendment to Letter Agreement, dated as of April 28, 2015, by and between ITT Educational Services, Inc. and Kevin M. Modany	8-K*	10.3	4/29/15
10.74	** Second Amendment to Letter Agreement, dated as of May 26, 2015, by and between ITT Educational Services, Inc. and Kevin M. Modany	10-K*	10.69	5/29/15
10.75	** Third Amendment to Letter Agreement, dated as of July 29, 2015, by and between ITT Educational Services, Inc. and Kevin M. Modany	8-K*	10.1	7/30/15
10.76	** Letter Agreement, dated as of December 31, 2015, by and between ITT Educational Services, Inc. and Kevin M. Modany	8-K*	10.2	12/31/15

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10.77	** Letter Agreement, dated August 4, 2014, by and between ITT Educational Services, Inc. and John E. Dean	8-K*	10.2	8/5/14	
10.78	** Letter Agreement, dated as of April 29, 2015, by and between ITT Educational Services, Inc. and Daniel M. Fitzpatrick	8-K*	10.1	4/29/15	
10.79	** Amendment to Equity Award Agreements, dated as of April 29, 2015, by and between ITT Educational Services, Inc. and Daniel M. Fitzpatrick	8-K*	10.2	4/29/15	
10.80	** Consulting Agreement, dated as of September 3, 2015, by and between ITT Educational Services, Inc. and Daniel M. Fitzpatrick	8-K*	10.1	9/8/15	
10.81	Irrevocable Letter of Credit Payable to the U.S. Department of Education, dated October 31, 2014	8-K*	10.1	11/04/14	
10.82	Agreement, dated as of December 16, 2015, by and between ITT Educational Services, Inc. and the U.S. Department of Education	8-K*	10.1	12/22/15	
10.83	Pledge and Security Agreement for Guarantee of Deductible and/or Loss Limit Reimbursement Agreement, dated as of December 15, 2015, by and between ITT Educational Services, Inc. and Liberty Mutual Insurance Company	8-K*	10.1	12/29/15	
10.84	Stipulation and Agreement of Settlement, dated November 2, 2015 (entered by the parties in <i>In re ITT Educational Services, Inc. Securities Litigation</i>)				X
10.85	Stipulation and Agreement of Settlement, dated November 2, 2015 (entered by the parties in <i>In re ITT Educational Services, Inc. Securities Litigation (Indiana)</i>)				X
10.86	Stipulation and Agreement of Settlement, dated January 21, 2016				X
21	Subsidiaries				X
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm				X
23.2	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm				X

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31.1	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934	X
31.2	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934	X
32.1	Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350	X
32.2	Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350	X
101	The following materials from ITT Educational Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Cash Flows; (v) Consolidated Statements of Shareholders' Equity; (vi) Notes to Consolidated Financial Statements; and (vii) Financial Statement Schedule II	X

* SEC File No. 001-13144

** The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.

*** Registration No. 333-84871