

ITT EDUCATIONAL SERVICES INC

Form 10-K/A

March 14, 2016

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

**(Amendment No. 1)**

**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, 2014**

**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)

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

**13000 North Meridian Street**

**Carmel, Indiana**  
(Address of principal executive offices)

**46032-1404**  
(Zip Code)

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

**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

**\$387,786,692**

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, 2014 (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are affiliates).

**23,552,426**

Number of shares of Common Stock, \$.01 par value, outstanding at April 30, 2015.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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**EXPLANATORY NOTE**

**Restatement of Consolidated Financial Statements**

ITT Educational Services, Inc. ( we, us or our ) is filing this Amendment No. 1 ( Amended Filing ) to its Annual Report on Form 10-K for the year ended December 31, 2014, originally filed with the United States Securities and Exchange Commission ( SEC ) on May 29, 2015 (the Original Filing ), to amend and restate its audited consolidated financial statements and related disclosures for the year ended December 31, 2014.

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, we determined 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 a senior debt arrangement (the PEAKS Senior Debt ) that resulted in the misstatement of interest expense in previously reported interim periods.

Within this Amended Filing, we are restating our previously issued consolidated financial statements as of and for the year ended December 31, 2014 to reflect this adjustment to the interest rate used in the application of the interest method to the discount on the PEAKS Senior Debt in that period.

The effects of the restatement on our audited consolidated financial statements are a reduction in the amount of the debt discount, an increase in the carrying value of the PEAKS Senior Debt and an increase in interest expense. The restatement does not increase the total amount of non-cash interest expense that will be reported from the accretion of the debt discount on the PEAKS Senior Debt, but instead changes the timing of the recognition of that interest expense through the maturity date. The restatement also has no effect on our cash and cash equivalents or liquidity; cash flows from operating activities, financing activities or investing activities; or projections of our future cash payment obligations under our private education loan program guarantees.

In this Amended Filing, we are restating:

our Consolidated Balance Sheet as of December 31, 2014;

our Consolidated Statements of Income for the year ended December 31, 2014;

our Consolidated Statements of Comprehensive Income for the year ended December 31, 2014;

our Consolidated Statements of Cash Flows for the year ended December 31, 2014;

our Consolidated Statements of Shareholders' Equity for the year ended December 31, 2014; and

the Notes to those consolidated financial statements.

See Note 2 Restatement of Previously Issued Financial Statements of the Notes to Consolidated Financial Statements for additional information.

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For ease of reference, this Amended Filing amends and restates the Original Filing in its entirety. The following Items have been revised to reflect the impact of the restatement on the affected line items of our consolidated financial statements:

Part II, Item 6 Selected Financial Data

Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8 Financial Statements and Supplementary Data

Part IV, Item 15 Exhibits and Financial Statement Schedules

We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our audited consolidated financial statements formatted in eXtensible Business Reporting Language (XBRL) in Exhibit 101. In addition, we have revised certain other Items in this Amended Filing solely to change cross-references to the numbers of the notes to our consolidated financial statements resulting from a renumbering of the notes to add a note regarding the restatement.

Except as provided in this Explanatory Note, or as indicated in the applicable disclosure, this Amended Filing has not been updated to reflect other events occurring after the filing of the Original Filing and does not modify or update information and disclosures in the Original Filing affected by subsequent events. Accordingly, this Amended Filing should be read in conjunction with our filings with the SEC subsequent to the date on which we filed the Original Filing, together with any amendments to those filings.

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**ITT EDUCATIONAL SERVICES, INC.**

**Carmel, Indiana**

**Annual Report to Securities and Exchange Commission**

**December 31, 2014**

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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 lawsuits against us, our failure to submit our 2013 audited financial statements and 2013 compliance audits to it by the due date, and any failure to submit our 2014 audited financial statements and 2014 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;*

*our failure to comply with the extensive education laws and regulations and accreditation standards that we are subject to;*

*actions by the New York Stock Exchange to delist our common stock;*

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

*the impact of our late filings with the U.S. Securities and Exchange Commission;*

*issues related to the restatement of our financial statements for the first three quarters of 2013;*



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

*the outcome of litigation, investigations and claims against us;*

*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, 2014, we were offering:

master, bachelor and associate degree programs to approximately 53,000 students; and

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

As of December 31, 2014, we had 144 college locations in 39 states. In addition, during 2014 we offered one or more of our online programs to students who are located in all 50 states. All of our college 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 2014, 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 2014, we:

relocated three of our campuses into existing facilities of other ITT Technical Institute campuses;

converted one of our learning sites into an ITT Technical Institute campus;

closed one of our learning sites;

closed four of our ITT Technical Institute campuses; and

decreased the number of our campuses that offer bachelor degree programs from 134 to 130.

In 2014, 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 2014, we continued to develop and offer training programs to career advancers and other professionals through the CPD.

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 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.

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**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;

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.

*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 2014, we added a total of 146 associate and bachelor degree programs among 84 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.

*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.



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

**Programs of Study**

As of December 31, 2014, the ITT Technical Institutes were offering 51 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:

<b>School of Study</b>	<b>Fields</b>
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
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

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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 2014 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. Gross tuition for a student entering an undergraduate residence education program at DWC in September 2014 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 gross tuition amounts discussed above do not reflect institutional scholarships and awards, which reduce the amount of gross tuition that students pay to attend our institutions. In the academic year beginning in December 2014 and ending in September 2015, we believe that institutional scholarships and awards for ITT Technical Institute students will average approximately \$1,169 per student, based on the number of students estimated to be enrolled in education programs in each of the three months

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ended March 31, 2015, June 30, 2015 and September 30, 2015. 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 2015. The majority of students attending residence programs at our campuses lived in that campus metropolitan area prior to enrollment. The only student housing that we provide is at the Nashua, New Hampshire campus of DWC.

As of December 31, 2014, the CPD was offering 2,690 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.

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**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, 2014, we employed approximately 1,350 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**

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, 2014	December 31, 2013
<b>Age</b>		
19 or less	3%	3%
20 through 24	23%	25%
25 through 30	29%	29%
31 or over	45%	43%
<b>Gender</b>		
Male	55%	72%
Female	45%	28%
<b>Race</b>		
Caucasian	42%	43%
Other (1)	58%	57%

(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.

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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 70% of the Employable Graduates (as defined below) in 2013 had obtained employment by April 30, 2014 in positions that required the direct or indirect use of skills taught in their education programs, compared to approximately 66% of the Employable Graduates in 2012 who had obtained employment by April 30, 2013.

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 \$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, compared to approximately \$32,612 for the Employable Graduates in 2012 who, as of April 30, 2013, 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.

### **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, 2014, we had approximately 4,400 full-time and 4,500 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



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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 2014, 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 (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 2014 included:

the William D. Ford Federal Direct Loan (the FDL) program, which represented, in aggregate, approximately 57% of our cash receipts; and

the Federal Pell Grant (the Pell) program, which represented, in aggregate, approximately 24% of our cash receipts.

Other sources of financial aid used by our students in 2014 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 1% of our cash receipts.

Institutional scholarships and awards, which our students use to help reduce their educational expenses, amounted to, in aggregate, approximately \$261.2 million in 2014. Institutional scholarships and awards for ITT Technical Institute students averaged approximately \$1,177 per student in the year ended December 31, 2014, based on the number of

students enrolled in education

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programs in each of the three months ended March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014. We also provided internal student financing to our students in 2014, which consists of non-interest bearing, unsecured credit extended to our students. The amount of internal student financing that we have provided has decreased and will continue to decrease significantly, as the amount of institutional scholarships and awards that our students receive increases.

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.

***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, 2014, 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, 2014, one ITT Technical Institute institution had 139 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, 2014, all 144 of our campuses participated in Title IV Programs.

Each of the campuses that we added from 2010 through 2012 constitutes an additional location under the ED's regulations. The HEA requires a proprietary institution to operate for two years before it can qualify to participate in Title IV Programs. If an

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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;

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 Our institutions' failure to submit their 2013 audited consolidated financial statements and 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 post a letter of credit, being*

*placed on heightened cash monitoring and being provisionally certified.*

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 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.



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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. Any institution provisionally certified by the ED, however, 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 expansion 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, or 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 \$20,235.02 for the 2014-2015 year. Veterans pursuing a program of education on a more than half-time basis at an 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;

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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 Department of Defense ( DoD ), or DoD tuition assistance programs. Each institution participating in 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 ED, approved for funding by the VA, and a participant in the Title IV programs administered by ED.

On January 30, 2014, the DoD, VA, ED, and Federal Trade Commission, in collaboration with the CFPB and Department of Justice, announced a new online student complaint 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 complaint system is designed to help the government identify and address unfair, deceptive, and misleading practices. The complaint

system was developed pursuant to EO 13607, which requires federal agencies to create a centralized complaint 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.

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.

Effective May 11, 2015, the California State Approving Agency for Veterans Education (CSAAVE), a division of the California Department of Veterans Affairs, gave notice to all of our campuses in California, suspending the approval of their courses for receipt of veterans educational program benefits under the GI Bill Programs. The basis for the suspension was CSAAVE's determination that the campuses did not fully comply with the financial stability standards for accreditation published by the ACICS. The notice of suspension precludes our California campuses from future enrollment or re-enrollment of veterans or their dependents intending to utilize the GI Bill Programs education benefits to pay in whole or in part for their enrollment in the institution. We have been in contact with CSAAVE, which requested that we submit additional financial information, including a statement of determination from the ACICS that all of our California campuses fully comply with the financial stability standards and requirements for accreditation. We have submitted the requested information to CSAAVE. If CSAAVE does not lift the suspension order, CSAAVE says that the approval of our California campuses to train veterans will be withdrawn no later than July 13, 2015. Although we have provided the requested information and do not believe there is a basis for and will continue to dispute CSAAVE's action, we cannot assure you that the suspension of our California campuses will be lifted.

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Effective May 18, 2015, the New York State Approving Agency for Veterans Education ( NYSAA ), a division of the New York Department of Veterans Affairs, gave notice to all of our campuses in New York, suspending the approval of their courses for receipt of veterans' educational program benefits under the GI Bill Programs. The basis for the suspension was NYSAA's determination that the campuses did not fully comply with the financial stability standards for accreditation published by ACICS. The notice of suspension precludes our New York campuses from future enrollment of veterans or their dependents intending to utilize the GI Bill Programs' education benefits to pay in whole or in part for their enrollment in the campus. The notice of suspension specifically allows the certification of benefits for re-enrollments. NYSAA has directed that we submit, among other things, evidence of current financial stability, consistent with the ACICS standards, as well as documentation that the campuses in New York were not participating in practices asserted by the CFPB. We have submitted the requested information to NYSAA. If NYSAA does not lift the suspension order, NYSAA says that the approval of our New York campuses to train veterans will be withdrawn no later than July 17, 2015. Although we do not believe there is a basis for and intend to dispute NYSAA's action, we cannot assure you that the suspension of our New York campuses will be lifted.

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, 2014, 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, 2014, 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 13 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

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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 extends through July 31, 2015. 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.*

***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. Our learning sites, if any, are classified as additional locations of the main campus under the ED's regulations, as campus additions under the ACICS accreditation standards, and as instructional locations of the main or branch campus under the NEASC accreditation standards. Under the ACICS criteria, the ACICS has classified one of our ITT Technical Institute institutions, which consists of a main campus and 139 additional locations, as a centrally controlled institution (the Centrally Controlled Institution ). During 2013, the ACICS evaluated the Centrally Controlled Institution for a renewal grant of accreditation. In April 2013, the ACICS extended the Centrally Controlled Institution's current grant of accreditation through December 31, 2017. In 2014, the ACICS also approved one ITT Technical Institute location for inclusion in the Centrally Controlled Institution's grant of accreditation.

***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 compliance 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 compliance 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 compliance 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 compliance standards is required to obtain permission from the ACICS prior to applying to add a new program offering.



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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 ) and/or its Institutional Effectiveness Plan. 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). 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:

69 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring with respect to the locations Student Retention Rates (as defined below);

25 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring with respect to the locations Graduate Placement Rates (as defined below);

19 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring and need to raise their Student Retention Rate to at least 60% by November 1, 2015, or the ACICS may withdraw those locations inclusion in the institution s grant of accreditation (although we are no longer enrolling new students at five of these locations);

four ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring and need to raise their Graduate Placement Rates to at least 60% by November 1, 2015, or the ACICS may withdraw those locations inclusion in the institution s grant of accreditation;

a total of 149 program offerings at 94 ITT Technical Institute locations are subject to a program Improvement Plan with respect to the Student Retention Rates of those program offerings;

a total of 85 program offerings at 62 ITT Technical Institute locations are subject to a program Improvement Plan with respect to the Graduate Placement Rates of those program offerings;

a total of eight program offerings at eight ITT Technical Institute locations are subject to a program Improvement Plan with respect to the Licensure Examination Pass Rates of those program offerings;

a total of 250 program offerings at 103 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring and need to raise their Student Retention Rates to at least 60% by November 1, 2015, or the ACICS may withdraw its authorization of those program offerings (although we have discontinued and are no longer enrolling new students in 45 of those program offerings);

a total of 94 program offerings at 62 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring and need to raise their Graduate Placement Rates to at least 60% by November 1, 2015, or the ACICS may withdraw its authorization of those program offerings (although we have discontinued and are no longer enrolling new students in 50 of those program offerings); and

a total of 14 program offerings at 14 ITT Technical Institute locations are subject to a campus Improvement Plan and Student Achievement Monitoring and need to raise their Licensure Examination Pass Rates to at least 60% by November 1, 2015, or the ACICS may withdraw its authorization of those program offerings (although we have discontinued and are no longer enrolling new students in two of those 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.

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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 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 expansion plans, financial condition, results of operations and cash flows.

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, attended the NEASC April 2015 meeting and is currently awaiting receipt of a formal letter from the NEASC with its recommendations. DWC cannot predict when or how the NEASC will rule on the subject of its financial condition.

***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](http://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 this Annual Report on Form 10-K was filed with the SEC after the applicable filing deadline. In addition, our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014 were each filed with the SEC after its applicable filing deadline, and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 will be filed after its filing deadline. Failure to timely file our reports with the SEC may have negative consequences. See Risk Factors Risks Related to Recent Developments.

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We also make the following materials available free of charge through our website at [www.ittesi.com](http://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 ).

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](http://www.ittesi.com):

our annual report on Form 10-K for the year ended December 31, 2014, 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](http://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 2015 and beyond could differ materially from those expressed in, or implied by, those forward-looking statements.*

**Risks Related to Recent Developments**

*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, 2014, our management identified material weaknesses in our ICFR 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 relating to property, plant, and equipment, including logical access controls related to information systems relevant to property, plant, 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.

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, 2014. This is the second 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. The unremediated material weakness was the one related to data obtained from third parties related to private education loans, as 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 weaknesses, if our remedial measures are insufficient to address the material weaknesses, 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 two consecutive years.

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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.

***Matters relating to or arising from our review of accounting matters related to the PEAKS Program and the CUSO Program may adversely affect our business, results of operations and cash flows.*** As previously disclosed, a number of factors, including the SEC's investigation of us related to our actions and accounting associated with, among other things, the PEAKS Program and the CUSO Program, have led to us conducting additional analyses and reviews with respect to accounting matters related to those programs. As a result of such additional analyses and reviews, the Audit Committee of our Board of Directors concluded that the PEAKS Trust should have been consolidated in our consolidated financial statements beginning on February 28, 2013, and that our previously issued 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 should be restated. Further, our more recent accounting analyses and reviews of the CUSO Program have resulted in our conclusion to consolidate the CUSO in our consolidated financial statements beginning on September 30, 2014. To date, we have incurred significant expenses related to legal, accounting and other professional services in connection with the SEC's investigation of us, the accounting analyses and the restatement and related matters, and may continue to incur significant additional expenses with regard to those matters and our remediation efforts. In addition, our Chief Executive Officer and Chief Financial Officer, as well as senior members of our finance and accounting departments, have spent substantial amounts of time and effort with regard to all of those matters. The significant amount of time and effort spent by our management team on those matters has diverted, and is expected to continue to divert, their attention from the operation of our business. The expenses incurred, and expected to be incurred, on those matters, and the diversion of the attention of the management team which has occurred and is expected to continue, have had, and could continue to have, a material adverse effect on our business, financial condition, results of operations and/or cash flows.

***The New York Stock Exchange could commence procedures to delist our common stock.*** As a result of our failure to timely file this Annual Report on Form 10-K with the SEC, on March 16, 2015, we received a notice from the New York Stock Exchange ( NYSE ) that we were subject to the procedures set forth in the NYSE's listing standards related to late filings. In accordance with the NYSE's procedures, we had six months following March 16, 2015 to file this Annual Report on Form 10-K with the SEC. Although we have filed this Annual Report on Form 10-K with the SEC within the applicable period, the listing standards of the NYSE provide the NYSE with broad discretion regarding delisting matters. One of the factors described in the NYSE's listing standards that could lead to a company's delisting is the failure of the company to make timely, adequate and accurate disclosures of information to its shareholders and the investing public. We 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. In addition, our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014 ( 2014 First Quarter Form 10-Q ), June 30, 2014 ( 2014 Second Quarter Form 10-Q ) and September 30, 2014 ( 2014 Third Quarter Form 10-Q ) were each filed after their respective due dates. Additionally, we will be filing our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 ( 2015 First Quarter Form 10-Q ) after its due date, and therefore we will continue to be subject to the procedures set forth in the NYSE's listing standards related to late filings and subject to the risk of delisting. We cannot assure you that the NYSE will not commence delisting procedures with respect to our common stock as a result of those and other factors related to us. If the NYSE were to delist our common stock, the delisting could further:



decrease trading in our common stock;

adversely affect the market liquidity of our common stock;

decrease the trading price of our common stock;

increase the volatility of our common stock price;

decrease analyst coverage of our common stock;

decrease investor demand and information available concerning trading prices and volume of our common stock;

make it more difficult for investors to buy or sell our common stock; and

harm our ability to obtain financing on acceptable terms.

***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, and could have negative consequences related to our financing agreement.*** We did not file our 2013 Form 10-K, our 2014 First Quarter Form 10-Q, our 2014 Second Quarter Form 10-Q, our 2014 Third Quarter Form 10-Q and this Annual Report on Form 10-K within the timeframes required by the SEC. We also have not yet filed our 2015 First Quarter Form 10-Q, and therefore it is delinquent. 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 regain compliance with our SEC reporting obligations. Further, pursuant to the Financing Agreement (as defined below), we must provide to our lenders our annual and quarterly financial information of the type required to be filed with our periodic reports with the SEC within 90 and 45 days, respectively, after the end of the relevant period, or certain monthly financial information within 30 days after the end of each month, subject to the extension described below.

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On December 4, 2014, we entered into a financing agreement (the *Original Financing Agreement*) with Cerberus Business Finance, LLC ( *Cerberus* ), as administrative agent and collateral agent, the lenders party thereto and certain of our subsidiaries. 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* ) and on May 26, 2015, we entered into a Limited Consent to Financing Agreement (the *FA Consent* ). The Original Financing Agreement, as amended by Amendment No. 1 and Amendment No. 2 and including the FA Consent, is referred to herein as the *Financing Agreement*. The FA Consent provides for an extension to June 15, 2015 of the deadline by which we are required to deliver to the lenders our financial statements and related information for the fiscal quarter ended March 31, 2015. If we are not able to deliver our financial statements for the fiscal quarter ended March 31, 2015 by June 15, 2015, or for future periods by the applicable due dates, then we would be in breach of the Financing Agreement, which could give rise to material adverse consequences to us. See *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.*

***As a result of the PEAKS Consolidation, our consolidated financial statements are materially different from those that we previously issued, which could have negative implications for our Financing Agreement and guarantee obligations and regulatory compliance.*** Prior to the PEAKS Consolidation, the PEAKS Trust was not included in our consolidated financial statements. As a result of the PEAKS Consolidation, beginning on February 28, 2013, our consolidated financial statements are substantially different from the consolidated financial statements that we would present, if we were not required to consolidate the PEAKS Trust. We cannot assure you that the financial impact of the PEAKS Consolidation on our consolidated financial statements in future periods will not violate the covenants under the Financing Agreement. We may not be able to obtain amendments to, or waivers of, those covenants. The PEAKS Consolidation also 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 SAs. The financial impact of the PEAKS Consolidation on our consolidated financial statements in future periods could also negatively impact our compliance with those measurements and requirements in the future. See [Risks Related to Our Highly Regulated Industry](#). *We may be subject to sanctions, including, without limitation, an increase in the amount of the ED Letter of Credit 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,* for a discussion of the impact of the PEAKS Consolidation on our consolidated financial statements. Further, the PEAKS Consolidation negatively impacted the financial metrics to which we are subject under the private education loan programs under which we have provided guarantees, resulting in materially increased payment amounts. The financial impact of the PEAKS Consolidation on our consolidated financial statements in future periods could negatively impact our compliance with those financial metrics in the future, resulting in materially increased payment amounts and/or the loss of our protective rights under those programs. Any of these factors could have a material adverse effect on our results of operations, financial condition and/or cash flows.

***The CUSO Consolidation could have a material adverse effect on our consolidated financial statements and our compliance with covenants and metrics to which we are subject.*** Prior to September 30, 2014, the CUSO was not included in our consolidated financial statements because we concluded we were not the primary beneficiary of the CUSO prior to that time. The CUSO Consolidation results in a different presentation in our consolidated financial statements of our transactions with the CUSO. We cannot assure you that the CUSO Consolidation, in combination with other factors, will not have a material negative impact in future periods on our ability to comply with our covenants under the Financing Agreement, the ED's financial responsibility measurements, the financial requirements of the SAs or the financial metrics to which we are subject under the CUSO RSA and the PEAKS Guarantee (as defined below), which could result in a material adverse effect on our results of operations, financial condition and/or cash flows. See [Risks Related to Our Highly Regulated Industry](#). *We may be subject to sanctions, including, without*

*limitation, an increase in the amount of the ED Letter of Credit 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,* for a discussion of the impact of the CUSO Consolidation on our consolidated financial statements.

***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

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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 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, except that, pursuant to Amendment No. 2, the deadline by which we must provide our financial statements related to the fiscal year ended December 31, 2014 was extended to May 31, 2015 and pursuant to the FA Consent, the deadline by which we must provide our financial statements related to the fiscal quarter ended March 31, 2015 was extended to June 15, 2015. If we are not able to deliver our financial statements for the fiscal quarter ended March 31, 2015 by June 15, 2015, or 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.

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.

In addition, based on our current estimates, we believe that we may make guarantee payments of approximately \$29.8 million in 2015 under our guarantee under the PEAKS Program. This guarantee consists of our guarantee of the payment of the principal, interest and, prior to February 2013, certain call premiums owed on the senior debt issued by the PEAKS Trust in the aggregate principal amount of \$300.0 million (the PEAKS Senior Debt ) to investors, 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 PEAKS Guarantee ). The \$29.8 million estimated payment amount would have exceeded the annual payment limitation of \$20.0 million related to payments under the PEAKS Program contained in the Original Financing Agreement covenant, but the covenant was modified in Amendment No. 2. However, we may be required to make payments under the PEAKS Program and/or the CUSO RSA in 2015 or future years that exceed our current estimates and the modified guarantee payment limitation amount. 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 PEAKS Guarantee and the CUSO RSA (collectively, 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 that our institutions are not financially responsible;

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.

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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 existing letters of credit;

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 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 recent filing of an enforcement action by the SEC against us, our CEO and our 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 Chief Financial Officer (the SEC Litigation). See Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements for a further discussion of the SEC Litigation. 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.

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 notification 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 must 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.

We intend to compile the requested information and submit it to the ED according to the schedule specified by the ED. We cannot assure you that the ED will not impose further sanctions on us in light of the SEC Litigation and other matters.

### **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 or credit or increase the amount of or extend the duration of the letter of credit that we have already posted with the ED;

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 13 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 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.

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

*Our institutions' failure to submit their 2013 audited consolidated financial statements and 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 post a letter of credit, being placed on heightened cash monitoring and being provisionally certified.* 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 );

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. The term of the ED Letter of Credit is for a period that ends on November 4, 2019. We will be required to adjust the amount of the ED Letter of Credit annually to 10% of the Title IV Program funds received by our institutions in the immediately preceding fiscal year. The ED may 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.

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 are satisfied, our institutions may 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, and believe that compliance with those requirements will not impact the timing of our institutions' receipt of Title IV Program funds by more than one business day, 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;

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.

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. 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. 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.*

Our institutions will remain provisionally certified by the ED to participate in Title IV Programs 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;

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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. 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 expansion 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:

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 notification 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 must 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.

We intend to compile the requested information and submit it to the ED according to the schedule specified by the ED. We cannot assure you that the ED will not impose further sanctions on us in light of the SEC Litigation and other matters.

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 obtain any required increases in the amount of the ED Letter of Credit. Our provision of the cash required by the issuing bank to collateralize the ED Letter of Credit and the other outstanding letters of credit has had, and will continue to have, a material adverse effect on our liquidity, and significantly reduced the amount of cash that we will have available for other purposes, including to satisfy our future payment obligations under the RSAs. The fact that a significant amount of our cash is being held in connection with the ED Letter of Credit could also negatively affect our ability to satisfy the financial metrics of the ED, SAs and ACs to which we are subject. See *We have a significant amount of cash held as collateral for outstanding letters of credit, which has a continuing material adverse effect on our cash flows and liquidity.*

***If our institutions were to fail to timely submit their 2014 audited consolidated financial statements and Compliance Audits to the ED by the 2015 due date, this could result in more severe sanctions being imposed on our institutions by the ED, SAs and ACs.*** If our institutions were to fail to timely submit their 2014 audited consolidated financial statements and Compliance Audits to the ED by the June 30, 2015 due date, we could face additional sanctions by the ED and other regulatory agencies. For example, the ED could require that we increase the amount of the ED Letter of Credit, could extend the time period for which the ED Letter of Credit must remain in effect, and could increase the level of our existing HCM for Title IV funds or place our institutions on the reimbursement system, either of which would significantly delay our institutions' receipt of Title IV Program funds. Any significant delay in our institutions' receipt of Title IV Program funds could adversely affect our financial condition, results of operations and cash flows, and could cause us to be in default of 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. 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.* Since the ED's regulations and policies do not envision institutions submitting their audited financial statements and Compliance Audits late two years in a row, they do not prescribe specific penalties if that situation should occur. However, the ED has a wide range of sanctions available to it for institutions that commit what the ED determines are significant violations of the ED regulations, and therefore the ED could attempt to impose additional sanctions on our institutions, including, for example, concluding that our institutions lack administrative capability under the ED's regulations, which could lead to:

the imposition of an administrative fine or penalty;

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a requirement to repay Title IV funds;

placing 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 we can award Title IV funds;

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

transferring our institutions to a stricter form of HCM or the reimbursement system;

initiating additional program reviews or other compliance reviews at our institutions;

more closely scrutinizing our 90/10 calculations, including the impact of our private loan programs on those calculations;

placing other limits on or terminating our institutions' eligibility to participate in Title IV Programs; and

other sanctions.

In addition, the ACs and SAs to which we are subject could impose additional penalties on our institutions, which may vary from state to state, but which could include in some states such sanctions as having to post an additional letter of credit or surety bond with the state, limiting our institutions' ability to add new programs or open new campuses, initiating more frequent reviews of our institutions including on-site visits, requiring our institutions to submit additional information and reports, or suspending or terminating our campuses' authority to operate. Any of the sanctions by the ED, SAs or ACs could materially adversely affect our financial condition, results of operations and cash flows, and impose significant operating restrictions on us.

***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 2015, 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.



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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 *Our institutions' failure to submit their 2013 audited financial statements and 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 post a letter of credit, being placed on heightened cash monitoring and being provisionally certified*, 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
2012 <sup>(a)</sup>	18.8%
2011 <sup>(b)</sup>	22.1%
2010	28.5%
2009	32.9% <sup>(c)</sup>

- (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 draft Three-Year CDRs before those rates are official.
- (b) The most recent year for which the ED has published official Three-Year CDRs.
- (c) Reduced by the ED from 34.2% as a result of an uncorrected data adjustment.

We believe that the higher Three-Year CDR average for FFY 2010 compared to the official Three-Year CDR average for FFY 2011 and the preliminary Three-Year CDR average for 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. We appealed the ITT Technical Institute institutions' official Three-Year CDRs for FFY 2009 on the basis that those Purchased Loans were improperly serviced. We have not yet received the ED's final determination of the ITT Technical Institute institutions' Three-Year CDRs for FFY 2009 in response to our loan servicing appeal, but we anticipate that the result of this appeal will not significantly change the average Three-Year CDR for FFY 2009 shown above. Further, because none of our institutions had a Three-Year CDR for FFY 2010 of 30% or greater, the fact that the Three-Year CDRs for FFY 2009 was greater than 30% does not impact our institutions' eligibility to participate in the FDL program or the Pell program. We did not appeal the ITT Technical Institute institutions' official Three-Year CDRs for FFYs 2010 or 2011, and do not intend to appeal for FFY 2012.

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 programs 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 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.

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*If the ED's new gainful employment regulations withstand legal challenges in court, and if any of our programs of study fail to qualify as programs that lead to gainful employment in a recognized occupation under those 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 will become effective on 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 1<sup>st</sup> and ends on June 30<sup>th</sup> of the immediately succeeding calendar year.

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.

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 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. 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, which represents more than 1,400 for-profit institutions nationwide, and the other lawsuit was filed by the Association of Proprietary Colleges, which

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represents more than 20 for-profit colleges in the state of New York. The lawsuits allege, among other things, that the New GE Rule exceeds the ED's statutory authority, violates institutions' constitutional rights, and is arbitrary and capricious. We cannot predict when or how the courts will rule on these lawsuits.

*We may be subject to sanctions, including, without limitation, an increase in the amount of the ED Letter of Credit, 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.

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 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, 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. 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. Based on our fiscal year consolidated financial statements at the parent company level, our institutions Composite Score was above 1.5 in 2014.

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 the composite score calculation for fiscal year ended December 31, 2013 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 April 20, 2015, we provided the ED with a notice of our intent to appeal the April 15, 2015 letter from the ED addressing our institutions' 2013 Composite Score and reiterated our offer to meet with the ED to discuss the calculation. We cannot assure you that the ED will agree with our position on this matter.

The letter of credit that the ED has already required us to post 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 any then-existing letter of credit based on our institutions' 2013 Composite Scores. 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 our letter of credit payable to the ED, we cannot assure you that we would be able to do so, or that we would be able to provide the cash collateral necessary to maintain any 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

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current liabilities. In addition, some of the ACs and SAs to which we are subject could impose sanctions and penalties against us and our institutions as a result of a 2013 Composite Score 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;

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 13 campuses in Florida from an annual license to a provisional license, through July 31, 2015;

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;

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;

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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 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, 2014, 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. 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 can 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 2014 fiscal year, none of our institutions derived more than approximately 81% 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 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.

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***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 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;

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. Those sanctions and lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows and future growth.

***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 expansion 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 expansion plans.

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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 expansion 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. See Business Highly Regulated Industry.

Due to our institutions' failure to submit their 2013 audited consolidated financial statements and Compliance Audits to the ED by June 30, 2014, all of our institutions are provisionally certified to participate in Title IV Programs. See *Our institutions' failure to submit their 2013 audited consolidated financial statements and 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 post a letter of credit, being placed on heightened cash monitoring and being provisionally certified.* 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 reported in recent compliance audits and ED program reviews.

See Business Highly Regulated Industry, for a further discussion of the ED's provisional certification of an institution to participate in Title IV Programs. See also *If the ED's new gainful employment regulations withstand legal challenges in court, and if any of our programs of study fail to qualify as programs that lead to gainful employment in*



*a recognized occupation under those 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 compliance 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 compliance 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 compliance 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

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of a program offering at a campus falls below the ACICS compliance 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 compliance 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 expansion 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, as opposed to credit hours, are complex. Students attending credit hour programs of study that are required to be measured in clock hours for Title IV purposes may likely 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, 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 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. 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 16 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 or investigations 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.

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***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.*** Effective May 11, 2015, CSAAVE, a division of the California Department of Veterans Affairs, gave notice to all of our campuses in California, suspending the approval of their courses for receipt of veterans' educational program benefits under the GI Bill Programs. The basis for the suspension was CSAAVE's determination that the campuses did not fully comply with the financial stability standards for accreditation published by the ACICS. The notice of suspension precludes our California campuses from future enrollment or re-enrollment of veterans or their dependents intending to utilize the GI Bill Programs' education benefits to pay in whole or in part for their enrollment in the campus. We have been in contact with CSAAVE, which requested that we submit additional financial information, including a statement of determination from the ACICS that all of our California campuses fully comply with the ACICS financial stability standards and requirements for accreditation. We have submitted the requested information to CSAAVE. If CSAAVE does not lift the suspension order, CSAAVE says that the approval of our California campuses to train veterans will be withdrawn no later than July 13, 2015. If the suspension order is not lifted on a timely basis or if the approval to train veterans is withdrawn, our enrollments, results of operations and financial condition could be materially and adversely affected.

Effective May 18, 2015, NYSAA, a division of the New York Department of Veterans Affairs, gave notice to all of our campuses in the New York, suspending the approval of their courses for receipt of veterans' educational program benefits under the GI Bill Programs. The basis for the suspension was NYSAA's determination that the campuses did not fully comply with the financial stability standards for accreditation published by the ACICS. The notice of suspension precludes our New York campuses from future enrollment of veterans or their dependents intending to utilize the GI Bill Programs' education benefits to pay in whole or in part for their enrollment in the campus. The notice of suspension specifically allows certification of benefits for re-enrollments. NYSAA has directed that we submit, among other things, evidence of current financial stability, consistent with the ACICS standards, as well as documentation that the campuses in New York were not participating in practices claimed by the CFPB. We have submitted the requested information to NYSAA. If NYSAA does not lift the suspension order, NYSAA says that the approval of our New York campuses to train veterans will be withdrawn no later than July 17, 2015. If the suspension order is not lifted on a timely basis or if the approval to train veterans is withdrawn, our enrollments, results of operations and financial condition could be materially and adversely affected.

Our campuses in 36 states in addition to New York and California are approved to receive veterans' educational program benefits under the GI Bill Programs. Based on the recent actions by the state approving agencies in California and New York, we believe that state approving agencies in other states may take similar actions 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 *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.*

***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 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 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 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.

***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.

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***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. A recent amendment to 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 the new 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.

***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 one public charter high school. 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.

**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 16 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 2014.

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 2015 and future years. See Note 16 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. 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

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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. 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.

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 \$9.2 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, as a result of the Consolidations, the liabilities of the PEAKS Trust and the CUSO are recorded on our consolidated balance sheet. See *As a result of the PEAKS Consolidation, our consolidated financial statements are materially different from those that we previously issued, which could have negative implications for our Financing Agreement and guarantee obligations and regulatory compliance* and *The CUSO Consolidation could have a material adverse effect on our consolidated financial statements and our compliance with covenants and metrics to which we are subject.*

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 make Discharge Payments (as defined below) to the fullest extent possible in 2018 and later years. If we do not make the Discharge Payments as assumed in 2018 and later years, due to an inability to make payments in those amounts or for any other reason, we estimate that we will have to pay significantly larger amounts under the CUSO RSA over the remaining term of that agreement.

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.

***If we fail to effectively identify, establish and operate new campuses, our growth may be slowed.*** 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 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, either before or after it starts disbursing Title IV

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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 expansion opportunities or that we will be able to 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 slow our growth, make any newly established campuses more costly to operate than we had planned and have a material adverse effect on our expansion 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 expansion plans and results of operations. See Business Strategy Enhance Results at Each Institution, *If the ED's new gainful employment regulations withstand legal challenges in court, and if any of our programs of study fail to qualify as programs that lead to gainful employment in a recognized occupation under those 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 compliance 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.*

***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 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 2014 and, we believe, may continue to decrease in 2015.

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

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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. This change in the timing of payments had a material adverse effect on our cash flows from operations in 2012 and 2013. In addition, we have the risk of collection with respect to our internal student financing, which caused us to increase our allowance for doubtful accounts in 2013 and 2014 and resulted in an increase in our bad debt expense as a percentage of revenue in 2013 and 2014. 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 as collateral for outstanding letters of credit, which has a continuing material adverse effect on our cash flows and liquidity.*** We were required to deposit \$89.3 million to be held as cash collateral for outstanding letters of credit for our account. Our collateralization of the letters of credit had, and continues to have, a material adverse effect on our liquidity, and significantly reduced the amount of cash that we have available for other purposes, including to satisfy our future payment obligations under the RSAs. The funds held as cash collateral are not available for use by us, and could be paid to the issuing bank for the letters of credit if the letters of credit are drawn upon. The fact that a significant amount of our cash is held in connection with the letters of credit could also negatively affect our ability to satisfy the financial metrics of the ED, 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 cash collateral as a result of an increase in required amounts of the letters of credit or a requirement for an additional letter of credit, which deposit could have a material adverse effect on our cash flows and liquidity.

***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. These balances have increased significantly in the last few years as a result of the number of our students who did not qualify for private education loans from third parties due to their prior credit history and the limited funding available under private education loan programs for which those students could qualify. 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

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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 expansion plans and results of operations.

***The search for, and transition of, a new chief executive officer and a new chief financial officer could adversely affect us, and 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. As previously disclosed, on August 4, 2014, in connection with the notification by Kevin M. Modany, our Chief Executive Officer, to our Board of Directors of his intention to resign as our Chief Executive Officer, we entered into a letter agreement with Mr. Modany (the Modany Letter Agreement ), pursuant to which Mr. Modany agreed to remain our Chief Executive Officer for a period ending on February 4, 2015, which period has been extended to August 31, 2015 (as so extended, the Applicable Period ), most recently pursuant to a second amendment to the Modany Letter Agreement entered into on May 26, 2015. Also as previously disclosed, on April 27, 2015, Daniel M. Fitzpatrick, our Chief Financial Officer, notified us of his plan to retire, and on April 29, 2015, we entered into a letter agreement with Mr. Fitzpatrick (the Fitzpatrick Letter Agreement ), pursuant to which he will remain our Chief Financial Officer for a period ending on October 29, 2015, as extended by us for up to four months (as so extended or earlier terminated, the Transition Period ).

The planned resignations of Messrs. Modany and Fitzpatrick may cause disruption in our business, strategic and employee relationships, which may significantly delay or prevent the achievement of our business objectives, and may cause a loss of key employees or declines in the productivity of existing employees. The search for a permanent Chief Executive Officer and a permanent Chief Financial Officer may take many months or more, further exacerbating these factors. Competition for senior management personnel is intense and we cannot assure you that we will be able to select and employ a new Chief Executive Officer or a new Chief Financial Officer in a timely manner. Identifying and hiring an experienced and qualified Chief Executive Officer and Chief Financial Officer are typically difficult, and may be even more difficult under the circumstances affecting us at this time. Further, we may not be able to effectively compete with compensation packages offered by other companies that are recruiting senior executive officers, due to the limitations imposed on us by the Incentive Compensation Prohibition. We may be unable to attract a suitably qualified individual for either the Chief Executive Officer position or the Chief Financial Officer position, or we may be required to pay increased base salary compensation in order to do so. Any or all of these risks could adversely affect our business, operating results or financial condition.

Our search for a new Chief Executive Officer and a new Chief Financial Officer may also adversely affect our business or impose additional risks, such as the following:

disruption of our business or distraction of our employees and management;

difficulty recruiting, hiring, motivating and retaining other talented and skilled personnel;

increased stock price volatility; and

difficulty in establishing, maintaining or negotiating business or strategic relationships or transactions.

We cannot assure you that the transition to a new Chief Executive Officer or a new Chief Financial Officer will be smooth or successful. Leadership transitions can be inherently difficult to manage and may cause uncertainty or a disruption to our business or may increase the likelihood of turnover in other key officers and employees. Changes to strategic or operating goals with the appointment of new executives may, themselves, prove to be disruptive. Periods of transition in senior management leadership are often difficult as the new executives gain detailed knowledge of the company's operations and may result in cultural differences and friction due to changes in strategy and style. During the transition periods, there may be uncertainty among investors, employees, creditors and others concerning our future direction and performance. Any disruption or uncertainty could have a material adverse effect on our results of operations and financial condition and the market price of our common stock.

During our search for, and transition to, a new Chief Executive Officer and a new Chief Financial Officer, it is important that we retain key personnel. All of our officers and other employees are at-will employees, which means they can terminate their employment relationship with us at any time, and their knowledge of our business and industry would be difficult to replace. If we lose the services of key personnel, especially during this period of leadership transition, or do not hire or retain other personnel for key positions, including the Chief Executive Officer or Chief Financial Officer positions, our business, results of operations and stock price could be adversely affected.

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, especially during this period of leadership transition, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could impair our ability to successfully manage our business.

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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.

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, including a new Chief Executive Officer or a new Chief Financial Officer. Our key executives may be more inclined to leave us, because the exercise prices of their stock options are significantly below 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.*** In August 2013, we acquired Cable Holdings, and in January 2014, we acquired Great Equalizer, Inc. and CompetenC Solutions, Inc. We may consider additional selective acquisitions of schools or education-related businesses in the future. 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.

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***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.

***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 post-secondary and other 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.

***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;

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;

failed to timely regain eligibility to participate in Title IV Programs from the ED or receive temporary certification to continue to participate in Title IV Programs pending further review by the ED; or

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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 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, 2014, we:

leased 114 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 nine facilities that are not expected to be used as a campus or learning site, four of which have leases that expire in 2015.

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 13 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 two 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 16 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.



**Table of Contents****Item 4. Mine Safety Disclosures.**

Not Applicable.

**PART II****Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is listed on the 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	2014		2013	
	High	Low	High	Low
March 31	\$ 45.80	\$ 26.73	\$ 19.49	\$ 11.69
June 30	\$ 29.89	\$ 16.20	\$ 28.52	\$ 11.95
September 30	\$ 17.17	\$ 4.07	\$ 31.85	\$ 23.82
December 31	\$ 14.10	\$ 3.66	\$ 42.80	\$ 27.97

There were 82 holders of record of our common stock on May 22, 2015.

We did not pay a cash dividend in 2014 or 2013. 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, 2014 that were not registered under the Securities Act.

In the three months ended December 31, 2014, 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, 2014. 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, 2009 through December 31, 2014. 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., Corinthian Colleges, Inc., 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 Education Management Corporation was included in the former peer issuer group, but was removed from the Peer Issuer Group due to its common stock being delisted and deregistered in 2014.

**Table of Contents****Cumulative Total Return****(Based on \$100 invested on December 31, 2009 and assumes****the reinvestment of all dividends)**

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
ITT Educational Services, Inc.	100.00	66.37	59.29	18.04	34.99	10.01
Peer Issuer Group Index	100.00	78.52	71.54	42.02	58.39	64.48
Former Peer Issuer Group Index	100.00	78.94	77.94	39.55	57.10	57.12
S&P 500 Index	100.00	115.06	117.49	136.30	180.44	205.14

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.

**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 restatement described further in Note 2 Restatement of Previously Issued Financial Statements of the Notes to Consolidated Financial Statements.

	Year Ended December 31,				
	2014 (a)	2013 (a)	2012	2011	2010
	(Dollars in thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Revenue	\$ 961,783	\$ 1,072,311	\$ 1,286,633	\$ 1,499,977	\$ 1,573,123
Cost of educational services	460,782	486,353	538,350	553,065	537,855
Student services and administrative expenses	389,116	397,541	400,856	414,156	415,189
Goodwill and asset impairment	2,454	0	15,166	0	0
Legal and professional fees related to certain lawsuits, investigations and accounting matters (b)	32,008	6,923	873	0	0
Loss related to loan program guarantees (c)	2,019	90,964	101,025	23,500	5,650
Provision for private education loan losses	14,150	29,349	0	0	0
Total costs and expenses	900,529	1,011,130	1,056,270	990,721	958,694

Operating income	61,254	61,181	230,363	509,256	614,429
Gain (loss) on consolidation of variable interest entities	16,631	(73,248)	0	0	0

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Interest income (expense), net	(37,743)	(25,169)	(2,375)	1,077	586
Income (loss) before provision for income taxes	40,142	(37,236)	227,988	510,333	615,015
Provision (benefit) for income taxes	16,822	(10,212)	89,018	201,247	240,314
Net income (loss)	\$ 23,320	\$ (27,024)	\$ 138,970	\$ 309,086	\$ 374,701

**Earnings (loss) per share: (d)**

Basic	\$ 0.99	\$ (1.15)	\$ 5.82	\$ 11.27	\$ 11.30
Diluted	\$ 0.98	\$ (1.15)	\$ 5.79	\$ 11.18	\$ 11.18

**Other Operating Data (e):**

Capital expenditures, net (f)	\$ 6,092	\$ 5,147	\$ 18,250	\$ 30,900	\$ 32,989
Number of students at end of period	53,646	57,542	61,059	73,255	84,686
Number of campuses at end of period	144	147	147	141	130
Number of learning sites at end of period	0	2	2	3	4

**As of December 31,**  
**2014 (a)    2013 (a)    2012    2011    2010**  
**(Dollars in thousands)**

**Balance Sheet Data:**

Cash and cash equivalents and investments	\$ 135,937	\$ 215,771	\$ 243,465	\$ 379,609	\$ 313,194
Total current assets	\$ 291,414	\$ 434,616	\$ 386,580	\$ 456,790	\$ 412,419
Property and equipment, less accumulated depreciation	\$ 157,072	\$ 168,509	\$ 189,890	\$ 201,257	\$ 198,213
Total assets	\$ 752,838	\$ 806,851	\$ 675,204	\$ 729,320	\$ 673,102
Total current liabilities	\$ 322,733	\$ 473,777	\$ 327,023	\$ 345,243	\$ 355,501
Total long-term debt (g)	\$ 134,880	\$ 71,341	\$ 140,000	\$ 150,000	\$ 150,000
CUSO secured borrowing obligation, excluding current portion	\$ 100,194	\$ 0	\$ 0	\$ 0	\$ 0
Total liabilities	\$ 610,766	\$ 691,205	\$ 549,439	\$ 560,215	\$ 546,060
Shareholders' equity	\$ 142,072	\$ 115,646	\$ 125,765	\$ 169,105	\$ 127,042

- (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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations.
- (b) 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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements for a further discussion of the PEAKS Consolidation and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations, 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.

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- (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, 2011 and 2010, have been combined and are shown as Capital expenditures, net in this table.
- (g) Total long-term debt for the years ended December 31, 2014 and 2013 represent the amounts shown on our Consolidated Balance Sheet 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.

This management's discussion and analysis of financial condition and results of operations has been revised to reflect the impact of the restatement on the affected line items of our consolidated financial statements. See Note 2 Restatement of Previously Issued Financial Statements of the Notes to Consolidated Financial Statements for additional information about the restatement.

**Executive Summary**

In 2014, 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:

we made payments aggregating \$170.3 million related to the PEAKS Program and the CUSO Program;

the ED Letter of Credit was issued for our account, and we provided approximately \$89.3 million in cash collateral for the ED Letter of Credit and other outstanding letters of credit, which funds are not available for use by us and could be paid to the issuing bank for the letters of credit if the letters of credit are drawn upon;

we borrowed \$100.0 million under the new Financing Agreement, and utilized all of the funds from that borrowing to repay outstanding borrowings under the Amended Credit Agreement, to provide a portion of the cash collateral required related to the letters of credit and to pay fees in connection with the Financing Agreement;

the amount of institutional scholarships and awards provided to our students increased significantly, and new and total student enrollment in education programs decreased, in each case, compared to the prior year; and

the PEAKS Trust was consolidated in our consolidated financial statements for the entire year, and the CUSO was consolidated in our consolidated financial statements beginning on September 30, 2014.

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.

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:

\$29.8 million in 2015;

\$4.3 million in 2016; and

\$15.3 million in 2020.

Based on various assumptions, including the historical and projected performance and collections of the CUSO Student Loans, the following table sets forth, in the periods indicated, our projections of the estimated amount of Regular Payments and Discharge Payments that we expect to pay (or that we expect will be owed by us, which amounts could be reduced prior to payment thereof by the amount of recoveries from charged-off loans owed to us) and the estimated amount of recoveries from charged-off loans that we expect to be paid to us by the CUSO (or that we may utilize to offset a portion of the amounts of Regular Payments or Discharge Payments owed by us):

<b>Year</b>	<b>Estimated Regular Payments</b>	<b>Estimated Discharge Payments</b>	<b>Estimated Total Payments</b>	<b>Estimated Recoveries</b>
	<b>(Dollar amounts in thousands)</b>			
2015	\$ 11,723	\$ 2,709 <sup>(1)</sup>	\$ 14,432	\$ (1,393)
2016	15,895	0	15,895	(1,479)
2017	17,615	0	17,615	(1,545)
2018 and later	0	78,747	78,747	(1,580)
	\$ 45,233	\$ 81,456	\$ 126,689	\$ (5,997)

(1) Represents the Discharge Payment of \$2.7 million that we made on March 19, 2015 pursuant to the terms of the Fifth Amendment to CUSO RSA.





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We believe that the vast majority of the \$78.7 million of estimated payments projected to be paid after 2017 will be made by us in 2018. The estimated future payment amounts and timing related to the CUSO RSA assume, among other factors, that we do not make any Discharge Payments in 2015, 2016 or 2017 (other than the Discharge Payment made in March 2015 pursuant to the terms of the Fifth Amendment to CUSO RSA) and do make Discharge Payments to the fullest extent possible in 2018 and later years. If we do not make the Discharge Payments as assumed in 2018 and later years, we estimate that we would make approximately \$100.3 million of Regular Payments in 2018 through approximately 2026. Of this amount, approximately \$18.6 million to \$20.0 million would be paid annually in each of 2018 through 2021, and approximately \$22.7 million in the aggregate, would be paid in 2022 through 2026.

We also have debt service and principal repayment obligations under the Financing Agreement. We estimate that in 2015, the amount of those cash payment obligations will be approximately \$19.3 million. 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 17 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, 2014 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. We determined that the activities that most significantly impact the economic performance of the CUSO involve the servicing (which includes the collection) of the private education loans made under the CUSO Program (the CUSO Student Loans). We were considered to have the power to direct the servicing activities of the CUSO Student Loans as a result of our substantive ability to terminate the servicing agreement that governs the servicing activities of the CUSO Student Loans (the CUSO

Servicing Agreement ). Pursuant to the CUSO Servicing Agreement, if the entity that performs the servicing activities on behalf of the CUSO (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 believe that the CUSO Program Servicer failed to meet the performance criteria specified in the CUSO Servicing Agreement on September 30, 2014, and that it was not reasonably possible that the CUSO Program Servicer would be able to affect a cure during the 90-day cure period. Because we believe that the cure period was not substantive, we were deemed, for accounting purposes, to have the right to terminate the CUSO Servicing Agreement as of September 30, 2014. As a result, we effectively had the power to direct the servicing activities of the CUSO as of September 30, 2014 and, therefore, were required to consolidate the CUSO in our consolidated financial statements as of that date. While our consolidated financial statements for periods after September 30, 2014 reflect the results of operations, financial condition and cash flows of the CUSO, we do not 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, as discussed further in Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

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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 of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust. We determined that the activities that most significantly impact the economic performance of the PEAKS Trust involve the servicing (which includes the collection) of the private education loans made under the PEAKS Program (the PEAKS Trust Student Loans ) and believe that February 28, 2013 was the first date that 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.

While our consolidated financial statements for periods after February 28, 2013 reflect the results of operations, financial condition and cash flows of the PEAKS Trust, we do not 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, as discussed further in Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

In periods prior to the respective dates of the Consolidations, we concluded that we were not required to consolidate the CUSO and PEAKS Trust in our consolidated financial statements, because we believed we did not have the power to direct the activities that most significantly impacted the economic performance of the CUSO and the PEAKS Trust and, therefore, we were not the primary beneficiary of the CUSO and the PEAKS Trust. See Note 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Consolidation and the CUSO Consolidation.

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, financial condition and cash flows 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, financial condition and cash flows;

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, financial condition and cash flows.

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The following tables set forth selected data from our balance sheets, statements of operations and statements of cash flows as of and for the years ended:

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 PEAKS Trust and Core Operations, and the elimination of transactions between the CUSO and Core Operations, in each case as a result of the applicable Consolidation; and

the Core Operations, the CUSO and the PEAKS Trust 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; and

December 31, 2012.

The information presented related to 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. For the years ended December 31, 2014 and 2013, all income tax amounts related to the PEAKS Trust and CUSO have been included in Core Operations.



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	As of December 31, 2014				GAAP Consolidated
	Core Operations	PEAKS Trust	CUSO	Eliminations	
<b>(Dollar amounts in thousands)</b>					
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 135,937	\$ 0	\$ 0	\$ 0	\$ 135,937
Restricted cash	1,967	1,556	2,517	0	6,040
Accounts receivable, net	46,383	0	0	0	46,383
Private education loans, current portion, less allowance for loan losses of \$0	0	7,169	3,415	0	10,584
Deferred income taxes	34,547	0	0	0	34,547
Prepaid expenses and other current assets	61,096	0	0	(3,173)	57,923
<b>Total current assets</b>	<b>279,930</b>	<b>8,725</b>	<b>5,932</b>	<b>(3,173)</b>	<b>291,414</b>
Property and equipment, net	157,072	0	0	0	157,072
Private education loans, excluding current portion, less allowance for loan losses of \$44,392	0	59,902	20,390	0	80,292
Deferred income taxes	71,719	0	0	0	71,719
Collateral deposits	97,932	0	0	0	97,932
Other assets	54,125	0	284	0	54,409
<b>Total assets</b>	<b>\$ 660,778</b>	<b>\$ 68,627</b>	<b>\$ 26,606</b>	<b>\$ (3,173)</b>	<b>\$ 752,838</b>
Current portion of long-term debt	\$ 9,635	\$ 0	\$ 0	\$ 0	\$ 9,635
Current portion of PEAKS Trust senior debt	0	37,545	0	0	37,545
Current portion of CUSO secured borrowing obligation	0	0	20,813	0	20,813
Accounts payable	67,848	0	0	0	67,848
Accrued compensation and benefits	12,264	0	0	0	12,264
Other current liabilities	37,137	199	179	(10,362)	27,153
Deferred revenue	147,475	0	0	0	147,475
<b>Total current liabilities</b>	<b>274,359</b>	<b>37,744</b>	<b>20,992</b>	<b>(10,362)</b>	<b>322,733</b>
Long-term debt, excluding current portion	86,714	0	0	0	86,714
PEAKS Trust senior debt, excluding current portion	0	48,166	0	0	48,166
CUSO secured borrowing obligation, excluding current portion	0	0	100,194	0	100,194
Other liabilities	152,049	0	1,073	(100,163)	52,959
<b>Total liabilities</b>	<b>513,122</b>	<b>85,910</b>	<b>122,259</b>	<b>(110,525)</b>	<b>610,766</b>
Total shareholders equity	147,656	(17,283)	(95,653)	107,352	142,072
<b>Total liabilities and shareholders equity</b>	<b>\$ 660,778</b>	<b>\$ 68,627</b>	<b>\$ 26,606</b>	<b>\$ (3,173)</b>	<b>\$ 752,838</b>





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	As of December 31, 2013				
	As of December 31, 2012	Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
	(Dollar amounts in thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 243,465	\$ 215,771	\$ 0	\$ 0	\$ 215,771
Restricted cash	3,478	3,043	2,593	0	5,636
Accounts receivable, net	78,928	99,530	0	0	99,530
PEAKS Trust student loans, current portion, net	0	0	7,730	0	7,730
Deferred income taxes	44,547	77,549	0	0	77,549
Prepaid expenses and other current assets	16,162	27,827	573	0	28,400
<b>Total current assets</b>	<b>386,580</b>	<b>423,720</b>	<b>10,896</b>	<b>0</b>	<b>434,616</b>
Property and equipment, net	189,890	168,509	0	0	168,509
PEAKS Trust student loans, excluding current portion, net	0	0	76,479	0	76,479
Deferred income taxes	57,471	68,324	0	0	68,324
Other assets	41,263	67,354	0	(8,431)	58,923
<b>Total assets</b>	<b>\$ 675,204</b>	<b>\$ 727,907</b>	<b>\$ 87,375</b>	<b>\$ (8,431)</b>	<b>\$ 806,851</b>
Current portion of long-term debt	\$ 0	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Current portion of PEAKS Trust senior debt	0	0	157,883	0	157,883
Accounts payable	63,304	58,021	0	0	58,021
Accrued compensation and benefits	21,023	18,107	0	0	18,107
Other current liabilities	106,796	33,366	11,830	(3,060)	42,136
Deferred revenue	135,900	147,630	0	0	147,630
<b>Total current liabilities</b>	<b>327,023</b>	<b>307,124</b>	<b>169,713</b>	<b>(3,060)</b>	<b>473,777</b>
Long-term debt, excluding current portion	140,000	0	0	0	0
PEAKS Trust senior debt, excluding current portion	0	0	71,341	0	71,341
Other liabilities	82,416	213,343	1,684	(68,940)	146,087
<b>Total liabilities</b>	<b>549,439</b>	<b>520,467</b>	<b>242,738</b>	<b>(72,000)</b>	<b>691,205</b>
<b>Total shareholders equity</b>	<b>125,765</b>	<b>207,440</b>	<b>(155,363)</b>	<b>63,569</b>	<b>115,646</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 675,204</b>	<b>\$ 727,907</b>	<b>\$ 87,375</b>	<b>\$ (8,431)</b>	<b>\$ 806,851</b>

In accordance with ASC 810, the assets and liabilities of the CUSO were treated as having been acquired by us at their fair values as of September 30, 2014. The carrying values of the assets and liabilities of the CUSO are included on our Consolidated Balance Sheet as of December 31, 2014. The assets of the CUSO consist primarily of cash and the CUSO Student Loans. The liabilities of the CUSO consist primarily of the CUSO secured borrowing obligation, which is discussed further below under Critical Accounting Policies and Estimates *CUSO Secured Borrowing Obligation*. The carrying values of the assets and liabilities related to the CUSO Program that had been included as

balance sheet items related to our Core Operations and consisted of the Revolving Note, other receivables (which consisted of recoveries from charged-off CUSO Student Loans that were owed to us, but were not paid to or offset by us) and the contingent liability, were eliminated from our Consolidated Balance Sheet as of December 31, 2014.

Although the assets and liabilities of the CUSO are presented on our Consolidated Balance Sheets following the CUSO Consolidation, the assets of the CUSO can only be used to satisfy the obligations of the CUSO.

In accordance with ASC 810, the assets and liabilities of the PEAKS Trust were treated as having been acquired by us at their fair values as of February 28, 2013. The carrying values of the assets and liabilities of the PEAKS Trust are included on our Consolidated Balance Sheets as of December 31, 2014 and 2013. The assets of the PEAKS Trust consist primarily of cash and the PEAKS Trust Student Loans. The liabilities of the PEAKS Trust consist primarily of the PEAKS Senior Debt. The assets of the

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PEAKS Trust serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. The carrying values of the assets and liabilities related to the PEAKS Program that had been included as balance sheet items related to our Core Operations and consisted of the Subordinated Note, a guarantee receivable and a contingent liability, were eliminated from our Consolidated Balance Sheets as of December 31, 2014 and 2013.

Although the assets and liabilities of the PEAKS Trust are presented on our Consolidated Balance Sheets following the PEAKS Consolidation, the assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust.

In estimating the carrying value of the PEAKS Trust Student Loans and the CUSO Student Loans, we made various assumptions, including, but not limited to, the amount of recoveries that would be realized from loans that had defaulted. The recovery assumption used in determining the carrying value of the PEAKS Trust Student Loans and the CUSO Student Loans as of December 31, 2014 was approximately 2%, which was based on the information and collections on the PEAKS Trust Student Loans and CUSO Student Loans that had defaulted prior to that date. If the actual recoveries from the Private Education Loans are more or less than the assumption utilized, a resulting adjustment will be reflected in earnings. Each 1% change in the recovery assumption would have resulted in a change in the carrying value of the Private Education Loans of approximately \$2.0 million as of December 31, 2014.

	<b>Year Ended December 31, 2014</b>				
	<b>Core Operations</b>	<b>PEAKS Trust</b>	<b>CUSO</b>	<b>Eliminations</b>	<b>GAAP Consolidated</b>
	<b>(Dollar amounts in thousands)</b>				
<b>Statement of Operations Data:</b>					
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
Legal and professional fees related to certain lawsuits, investigations and accounting matters	32,008	0	0	0	32,008
Loss related to loan program guarantees	2,019	0	0	0	2,019
Provision for private education loan losses	0	12,111	2,039	0	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
Provision for income taxes	16,822	0	0	0	16,822

Net income (loss)	\$ 47,195	\$ (35,441)	\$ (100,035)	\$ 111,601	\$ 23,320
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	Year Ended December 31, 2013				
	Year Ended December 31, 2012	Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
	(Dollar amounts in thousands)				
<b>Statement of Operations Data:</b>					
Revenue	\$ 1,286,633	\$ 1,059,315	\$ 12,996	\$ 0	\$ 1,072,311
Costs and expenses:					
Cost of educational services	538,350	486,353	0	0	486,353
Student services and administrative expenses	400,856	392,253	5,288	0	397,541
Goodwill and asset impairment	15,166	0	0	0	0
Legal and professional fees related to certain lawsuits, investigations and accounting matters	873	6,923	0	0	6,923
Loss related to loan program guarantees	101,025	115,503	0	(24,539)	90,964
Provision for private education loan losses	0	0	29,349	0	29,349
Total costs and expenses	1,056,270	1,001,032	34,637	(24,539)	1,011,130
Operating income (loss)	230,363	58,283	(21,641)	24,539	61,181
(Loss) on consolidation of variable interest entities	0	0	(112,748)	39,500	(73,248)
Interest income	1,348	578	0	(470)	108
Interest (expense)	(3,723)	(3,989)	(21,288)	0	(25,277)
Income (loss) before provision for income taxes	227,988	54,872	(155,677)	63,569	(37,236)
Provision (benefit) for income taxes	89,018	(10,212)	0	0	(10,212)
Net income (loss)	\$ 138,970	\$ 65,084	\$ (155,677)	\$ 63,569	\$ (27,024)

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 2012, the contingent liability accruals that we recorded related to the PEAKS Guarantee and the CUSO RSA;

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, 2014 or 2013, as applicable.

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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 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.



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Year Ended December 31, 2014

	Core Operations	PEAKS Trust	CUSO	Eliminations	GAAP Consolidated
<b>(Dollar amounts in thousands)</b>					
<b>Statement of Cash Flows Data:</b>					
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 47,195	\$ (35,441)	\$ (100,035)	\$ 111,601	\$ 23,320
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	26,456	0	0	0	26,456
Provision for doubtful accounts	63,928	0	0	0	63,928
Deferred income taxes	38,288	0	0	0	38,288
Stock-based compensation expense	10,336	0	0	0	10,336
Goodwill and asset impairment	2,454	0	0	0	2,454
Accretion of discount on private education loans	0	(11,471)	(699)	0	(12,170)
Accretion of discount on long-term debt	118	0	0	0	118
Accretion of discount on PEAKS Trust senior debt	0	16,220	0	0	16,220
Accretion of discount on CUSO secured borrowing obligation	0	0	231	0	231
Provision for private education loan losses	0	12,111	2,039	0	14,150
(Gain) on consolidation of variable interest entities	0	0	94,970	(111,601)	(16,631)
Other	(613)	0	0	0	(613)
Changes in operating assets and liabilities:					
Restricted cash	1,076	1,037	221	0	2,334
Accounts receivable	(10,010)	0	0	0	(10,010)
Private education loans	0	16,499	2,053	0	18,552
Accounts payable	9,591	0	0	0	9,591
Other operating assets and liabilities	(211,320)	159,713	2,986	0	(48,621)
Deferred revenue	(1,156)	0	0	0	(1,156)
<b>Net cash flows from operating activities</b>	<b>(23,657)</b>	<b>158,668</b>	<b>1,766</b>	<b>0</b>	<b>136,777</b>
<b>Net cash flows from investing activities</b>	<b>(100,325)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(100,325)</b>
<b>Cash flows from financing activities:</b>					
Debt issue costs	(4,938)	0	0	0	(4,938)
Proceeds from term borrowings	100,000	0	0	0	100,000
Repayment of revolving borrowings	(50,000)	0	0	0	(50,000)
Repayment of PEAKS Trust senior debt	0	(158,668)	0	0	(158,668)
Repayment of CUSO secured borrowing obligation	0	0	(1,766)	0	(1,766)
	(914)	0	0	0	(914)

Repurchase of common stock and shares  
tendered for taxes

<b>Net cash flows from financing activities</b>	44,148	(158,668)	(1,766)	0	(116,286)
Net change in cash and cash equivalents	(79,834)	0	0	0	(79,834)
Cash and cash equivalents at beginning of period	215,771	0	0	0	215,771
<b>Cash and cash equivalents at end of period</b>	\$ 135,937	\$ 0	\$ 0	\$ 0	\$ 135,937

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	Year Ended December 31, 2013				
	Year Ended December 31, 2012	Core Operations	PEAKS Trust	Eliminations	GAAP Consolidated
	(Dollar amounts in thousands)				
<b>Statement of Cash Flows Data:</b>					
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 138,970	\$ 65,084	\$ (155,677)	\$ 63,569	\$ (27,024)
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	29,350	27,252	0	0	27,252
Provision for doubtful accounts	56,818	67,640	0	0	67,640
Deferred income taxes	(59,571)	(54,102)	0	0	(54,102)
Excess tax benefit from stock option exercises	(1,382)	0	0	0	0
Stock-based compensation expense	16,658	11,638	0	0	11,638
Settlement cost	21,750	(46,000)	0	0	(46,000)
Goodwill and asset impairment	15,166	0	0	0	0
Accretion of discount on private education loans	0	0	(12,996)	0	(12,996)
Accretion of discount on PEAKS Trust senior debt	0	0	4,926	0	4,926
Provision for private education loan losses	0	0	29,349	0	29,349
Loss on consolidation of variable interest entities	0	0	112,748	(39,500)	73,248
Other	6,992	315	0	0	315
Changes in operating assets and liabilities:					
Restricted cash	3,794	435	(890)	0	(455)
Accounts receivable	(87,138)	(87,225)	0	0	(87,225)
Private education loans	0	0	11,554	0	11,554
Accounts payable	(15,572)	(5,574)	0	0	(5,574)
Other operating assets and liabilities	72,429	85,017	12,932	(24,069)	73,880
Deferred revenue	(90,643)	11,299	0	0	11,299
<b>Net cash flows from operating activities</b>	<b>107,621</b>	<b>75,779</b>	<b>1,946</b>	<b>0</b>	<b>77,725</b>
<b>Net cash flows from investing activities</b>	<b>123,164</b>	<b>(13,078)</b>	<b>0</b>	<b>0</b>	<b>(13,078)</b>
<b>Cash flows from financing activities:</b>					
Excess tax benefit from stock option exercises	1,382	0	0	0	0
Proceeds from exercise of stock options	8,345	0	0	0	0
Debt issue costs	(1,525)	0	0	0	0
Proceeds from revolving borrowings	175,000	0	0	0	0
Repayment of revolving borrowings	(185,000)	(90,000)	0	0	(90,000)
Repayment of PEAKS Trust senior debt	0	0	(1,946)	0	(1,946)
Repurchase of common stock and shares tendered for taxes	(209,371)	(395)	0	0	(395)

<b>Net cash flows from financing activities</b>	(211,169)	(90,395)	(1,946)	0	(92,341)
Net change in cash and cash equivalents	19,616	(27,694)	0	0	(27,694)
Cash and cash equivalents at beginning of period	223,849	243,465	0	0	243,465
<b>Cash and cash equivalents at end of period</b>	<b>\$ 243,465</b>	<b>\$ 215,771</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 215,771</b>

Although the cash flows of the PEAKS Trust are presented in our Consolidated Statements of Cash Flows following the PEAKS Consolidation, the cash resulting from the cash flows from operations and financing activities of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Although the cash flows of the CUSO are presented in our Consolidated Statements of Cash Flows following the CUSO Consolidation, the cash resulting from the cash flows from operations and financing activities of the CUSO can only be used to satisfy the obligations of the CUSO.

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**General**

As of December 31, 2014, we had 144 college locations in 39 states, which were providing education programs to approximately 53,000 students. In 2014, 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;

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.

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 2014, 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 2014, 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 2014, we:

relocated three of our campuses into existing facilities of other ITT Technical Institute campuses;

converted one of our learning sites into an ITT Technical Institute campus;

closed one of our learning sites;

closed four of our ITT Technical Institute campuses; and

decreased the number of our campuses that offer bachelor degree programs from 134 to 130.

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Additional education program offerings	146	348	272
Additional training program offerings	2,397	293	N/A
Number of locations with additional education program offerings	84	104	62
Began operations at new campuses	0	0	6
Campuses offering bachelor degree programs	130	134	133



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In 2015, we intend to add more of our current education program offerings among most of 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 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. 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. While our growth strategy continues to include opening new campuses, we do not expect to begin operations at any new campuses in 2015. 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:

	Core Operations Revenue per Student					
	2014		2013		2012	
	Amount	Increase (Decrease) to Prior Year	Amount	Increase (Decrease) to Prior Year	Amount	Increase (Decrease) to Prior Year
<b>Three Months Ended</b>						
March 31	\$ 4,080	(12.2)%	\$ 4,646	0.3%	\$ 4,631	1.7%
June 30	4,111	(2.1)%	4,200	(8.9)%	4,613	0.4%
September 30	4,323	(0.9)%	4,360	(7.7)%	4,726	2.6%
December 31	4,198	(2.9)%	4,323	(7.1)%	4,654	(0.8)%
<b>Total for Year</b>	<b>\$ 16,712</b>	<b>(4.7)%</b>	<b>\$ 17,529</b>	<b>(5.9)%</b>	<b>\$ 18,624</b>	<b>1.4%</b>



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.

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenue	100.0%	100.0%	100.0%
Cost of educational services	47.9%	45.4%	41.8%
Student services and administrative expenses	40.5%	37.1%	31.2%
Goodwill and asset impairment	0.3%	0.0%	1.1%
Legal and professional fees related to certain lawsuits, investigations and accounting matters	3.3%	0.6%	0.1%
Loss related to loan program guarantees	0.2%	8.5%	7.9%
Provision for private education loan losses	1.5%	2.7%	0.0%
Operating income	6.4%	5.7%	17.9%
Gain (loss) on consolidation of variable interest entities	1.7%	(6.8)%	0.0%
Interest income (expense), net	(3.9)%	(2.3)%	(0.2)%
Income (loss) before income taxes	4.2%	(3.5)%	17.7%

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

<b>As of December 31,</b>	<b>Total Student Enrollment in Education Programs</b>	<b>(Decrease) to Prior Year</b>
2014	53,646	(6.8)%
2013	57,542	(5.8)%
2012	61,059	(16.6)%

Total student enrollment in education programs as of March 31, 2015 was 51,201, a decrease of 10.4% as compared to 57,125 as of March 31, 2014.

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.

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

	2014		2013		2012	
	New Student Enrollment	Increase (Decrease) to Prior Year	New Student Enrollment	Increase (Decrease) to Prior Year	New Student Enrollment	Increase (Decrease) to Prior Year
<b>New Student Enrollment in Education Programs in the Three Months Ended:</b>						
March 31	16,746	(3.8%)	17,412	(3.6%)	18,067	(17.0%)
June 30	15,523	(8.1%)	16,883	7.5%	15,698	(9.5%)
September 30	18,317	(9.8%)	20,307	5.2%	19,298	(15.8%)
December 31	12,639	(9.7%)	13,995	4.5%	13,398	(11.4%)
<b>Total for the year</b>	<b>63,225</b>	<b>(7.8%)</b>	<b>68,597</b>	<b>3.2%</b>	<b>66,461</b>	<b>(13.9%)</b>

New student enrollment in education programs in the three months ended March 31, 2015 was 14,104, a decrease of 15.8% as compared to the same prior year period.

We believe that the 9.7% decrease in new student enrollment in education programs in the three months ended December 31, 2014 compared to the three months ended December 31, 2013 was primarily due to:

a decrease in the rate at which prospective students who inquired about our education programs actually applied for enrollment in the three months ended December 31, 2014 compared to the same prior year period; and

a decrease in the number of admissions representatives in the three months ended December 31, 2014 compared to the same prior year period, which were partially offset by an increase in the rate at which prospective students who applied for enrollment actually began attending classes in their education programs.

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We believe that the 9.8% decrease in new student enrollment in education programs in the three months ended September 30, 2014 compared to the three months ended September 30, 2013 was primarily due to:

a decrease in the rate at which prospective students who inquired about our education programs actually applied for enrollment in the three months ended September 30, 2014 compared to the same prior year period; and

a decrease in the number of admissions representatives in the three months ended September 30, 2014 compared to the same prior year period,  
which were partially offset by an increase in the rate at which prospective students who applied for enrollment actually began attending classes in their education programs.

We believe that the 8.1% decrease in new student enrollment in education programs in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, and the 3.8% decrease in new student enrollment in education programs in the three months ended March 31, 2014 compared to the three months ended March 31, 2013 were primarily due to a decrease in the number of prospective students who inquired about our education programs in each of those periods, which was partially offset by:

an increase in the rate at which prospective students who applied for enrollment actually began attending classes in their education programs; and

increased availability to and use by our students of institutional scholarships and awards, which have the effect of reducing the students' cost of our education programs.

We believe that the decreases in new student enrollment in education programs in the three months ended December 31, 2014, September 30, 2014, June 30, 2014 and March 31, 2014, compared to the same prior year periods were also due to our prospective students' :

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.

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:

increasing 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; and

refining our marketing, advertising and communications to focus more on the student value proposition and outcomes of an ITT Technical Institute education.

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
2014	70.2%	70.0%	69.9%	71.8%
2013	71.5%	68.4%	69.4%	71.4%
2012	72.4%	71.3%	69.8%	72.6%

Student persistence was 69.2% as of March 31, 2015, a decrease of 100 basis points compared to March 31, 2014.

We believe that the increase in student persistence as of each of December 31, September 30 and June 30, 2014 compared to the same date in the prior year was primarily due to a decrease in graduates in each of the three months ended December 31, September 30 and June 30, 2014 compared to the same prior year period. We believe that the decrease in student persistence as of March 31, 2014 compared to March 31, 2013 was primarily due to a decrease in student retention in the three months ended March 31, 2014 compared to the same prior year period, primarily attributed to lower student retention in a few courses that are delivered in the early portions of certain associate degree programs of study.

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***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.

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 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 \$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 12 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.

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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.

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 16 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 9 Variable Interest Entities and Note 16 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, 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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the Consolidations.



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

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 on the PEAKS Senior Debt , which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt in the year ended December 31, 2014, 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.

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.

***Year Ended December 31, 2013 Compared with Year Ended December 31, 2012.*** Revenue decreased \$214.3 million, or 16.7%, to \$1,072.3 million in the year ended December 31, 2013 compared to \$1,286.6 million in the year ended December 31, 2012. The primary factors that contributed to this decrease were:

an increase in institutional scholarships and awards provided to our students, which reduced revenue by \$108.3 million in the year ended December 31, 2013; and

an average 9.9% decrease in total student enrollment.

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 attributable to the interest income on the PEAKS Trust Student Loans was approximately \$13.0 million in the year ended December 31, 2013. No interest income on the PEAKS Trust Student Loans was included in revenue in the year ended December 31, 2012, because the PEAKS Consolidation was effective February 28, 2013. See Note 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the PEAKS Consolidation.

Cost of educational services decreased \$52.0 million, or 9.7%, to \$486.4 million in the year ended December 31, 2013 compared to \$538.4 million in the year ended December 31, 2012. The primary factors that contributed to this decrease included:

a decrease in compensation costs and benefit costs resulting from fewer employees; and

a decrease in course supply expenses, due to lower student enrollments in education programs. Cost of educational services as a percentage of revenue increased 360 basis points to 45.4% in the year ended December 31, 2013 compared to 41.8% in the year ended December 31, 2012. The primary factor that contributed to this increase was a decline in revenue, which was partially offset by decreases in compensation costs and benefit costs and course supply expenses.

Student services and administrative expenses decreased \$3.3 million, or 0.8%, to \$397.5 million in the year ended December 31, 2013 compared to \$400.9 million in the year ended December 31, 2012. The principal causes of this decrease were decreases in compensation and benefit costs and expenses related to student scholarships, which were partially offset by increases in media advertising expenses and bad debt expense. Approximately \$5.3 million of expenses of the PEAKS Trust were included in student services and administrative expenses in the year ended December 31, 2013. Those expenses 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 are based on the outstanding principal balance of the PEAKS Senior Debt.

Student services and administrative expenses increased to 37.1% of revenue in the year ended December 31, 2013 compared to 31.2% of revenue in the year ended December 31, 2012. The principal cause of this increase was the decline in revenue, which was partially offset by decreases in compensation costs and benefit costs and expenses related to student scholarships. Bad debt expense as a percentage of revenue increased to 6.3% in the year ended December 31, 2013 compared to 4.4% in the year ended December 31, 2012, primarily as a result of an increase in student account balances that were determined to be uncollectible.

We recorded an expense of \$15.2 million in the year ended December 31, 2012 related to the impairment of the Subordinated Note and Revolving Note. See Note 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a more detailed discussion of the impairment of the notes. No impairment of those notes was recorded in the year ended December 31, 2013.

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Legal and other professional fees related to certain lawsuits, investigations and accounting matters increased \$6.1 million, or 693.0%, to \$6.9 million in the year ended December 31, 2013, compared to \$0.9 million in the year ended December 31, 2012. These expenses related primarily to legal fees associated with the investigation of us by the SEC, the CFPB investigation of us and the securities class action lawsuits filed against us. See [Legal Proceedings](#) and [Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements](#), for further information about these matters.

In the year ended December 31, 2013, we recorded a loss related to loan program guarantees of \$91.0 million for the CUSO RSA compared to \$101.0 million in the year ended December 31, 2012 for the RSAs. 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 an enhanced default rate methodology and more recent performance data that we obtained in the three months ended December 21, 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.

The loss recorded in the year ended December 31, 2012 included \$79.2 million for additional contingent liabilities related to our guarantee obligations related to our guarantee obligations under the CUSO RSA and PEAKS Guarantee and \$21.8 million related to the settlement of litigation and the resolution of our guarantee obligations under the 2007 RSA. See [Note 9 Variable Interest Entities](#) and [Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements](#).

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 PEAKS Trust in our consolidated financial statements in the year ended December 31, 2012, and, therefore, we did not include the PEAKS Trust Student Loans in our consolidated financial statements or recognize any provision for private education loan losses in that year.

Operating income decreased \$169.2 million, or 73.4%, to \$61.2 million in the year ended December 31, 2013 compared to \$230.4 million in the year ended December 31, 2012, 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, 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 decreased to 5.7% in the year ended December 31, 2013 compared to 17.9% in the year ended December 31, 2012, primarily due to the impact of the factors discussed above.

In the year ended December 31, 2013, we recorded a loss upon the PEAKS Consolidation of \$73.2 million. This loss 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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Consolidation.

Interest income decreased \$1.2 million, or 92.0%, to \$0.1 million in the year ended December 31, 2013 compared to \$1.3 million in the year ended December 31, 2012, primarily due to discontinuing the amortization of the discount on the Subordinated Note. See Note 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a discussion of the Subordinated Note.

Interest expense increased \$21.6 million, or 578.9%, to \$25.3 million in the year ended December 31, 2013 compared to \$3.7 million in the year ended December 31, 2012, primarily due to:

interest expense of approximately \$21.3 million on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt, in the year ended December 31, 2013 as a result of the PEAKS Consolidation, during which the effective interest rate was 9.9%; 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 revolving credit facility.

Our combined federal and state effective income tax rate was 27.4% in the year ended December 31, 2013 compared to 39.0% in the year ended December 31, 2012. The primary factor that contributed to the decrease in the effective income tax rate in the year ended December 31, 2013 compared to the year ended December 31, 2012 was the recognition of certain losses related to the PEAKS Trust in our consolidated financial results for which an income tax benefit was not recognized.

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**Financial Condition, Liquidity and Capital Resources**

Cash and cash equivalents were \$135.9 million as of December 31, 2014 compared to \$215.8 million as of December 31, 2013. The \$79.8 million decrease in cash and cash equivalents as of December 31, 2014 compared to December 31, 2013 was primarily due to:

payments totaling approximately \$170.3 million related to our obligations under the PEAKS Guarantee and CUSO RSA, which included:

the \$40.0 million payment we made in March 2014 pursuant to the PEAKS Letter Agreement, which is considered to be a payment under the PEAKS Guarantee and reduced the outstanding balance of the PEAKS Senior Debt;

payments of approximately \$116.6 million that we made to satisfy our obligations under the PEAKS Guarantee with respect to the minimum required Asset/Liability Ratio, which reduced the outstanding balance of the PEAKS Senior Debt;

payments of approximately \$2.7 million that we made 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;

payments of approximately \$1.8 million that we made on behalf of borrowers related to the PEAKS Program;

Regular Payments under the CUSO RSA, net of amounts recovered from charged-off loans that were owed to us, of approximately \$6.6 million; and

Discharge Payments under the CUSO RSA of approximately \$2.6 million.

providing cash collateral of \$89.3 million related to outstanding letters of credit issued for our account; and

the repayment of \$50.0 million of outstanding borrowings under the Amended Credit Agreement. The reduction in cash and cash equivalents was partially offset by:

proceeds from borrowings under the Financing Agreement of \$100.0 million, excluding \$3.0 million of commitment fees paid to the lender; and

net cash flows generated from operating activities of \$136.8 million.

See Note 13 Debt and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the payments we made related to the Amended Credit Agreement and the RSAs.

Our Consolidated Balance Sheet as of December 31, 2014 included the assets and liabilities of the PEAKS Trust and the CUSO. As of December 31, 2013, our Consolidated Balance Sheet included the assets and liabilities of the PEAKS Trust. The assets and liabilities of the CUSO were not included on our Consolidated Balance Sheet as of December 31, 2013 because we did not consolidate the CUSO in our consolidated financial statements until September 30, 2014. 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, 2014 included approximately \$1.6 million of funds held by the PEAKS Trust and \$2.5 million of funds held by the CUSO. Funds held by the PEAKS Trust shown as restricted cash on our Consolidated Balance Sheet as of December 31, 2013 were \$2.6 million. Although the funds held by the PEAKS Trust and the CUSO are included on our Consolidated Balance Sheet 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 9 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 16 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 2015 of approximately \$29.8 million under the PEAKS Guarantee and approximately \$13.0 million, net of \$1.4 million in recoveries, under the CUSO RSA. As revised pursuant to Amendment No. 2, the Financing Agreement limits the aggregate amount of payments that we can make related to the PEAKS Guarantee and the CUSO RSA to \$45.0 million under both programs in 2015, and to \$35.0 million under both programs in any year after 2015 that the Financing Agreement is in effect. We expect to make significant payments after 2015 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



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pursuant to those obligations in the future and certain disputes and other matters relating to the RSAs, see Note 16 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, 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 program documents;

could result in cross-defaults under the Financing Agreement; 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 will reduce the cash we have available to use for other purposes, including to make required payments under the Financing Agreement, 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 RSAs. 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. We also have other letters of credit outstanding for our account in the amount of \$2.4 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. We satisfied that collateral obligation by providing approximately \$89.3 million in cash collateral utilizing proceeds from the Term Loans and other funds in 2014. That amount is included in the line item Collateral deposits on our Consolidated Balance Sheet as of December 31, 2014. The funds held as cash collateral related to the letters of credit are not available for use by us, and could be paid to the issuing bank for the letters of credit if the letters of credit are drawn upon. The fact that a significant amount of our cash is held in connection with the letters of credit 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, 2014 and 2013, 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 16 Commitments and Contingences of the Notes to Consolidated Financial Statements.

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 13 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 \$29.0 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 \$0.3 million for the ESI Excess Pension Plan, a nonqualified, unfunded retirement plan, on our Consolidated Balance Sheet as of December 31, 2014. 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.

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, 2014 was \$4.6 million, compared to \$2.1 million in the year ended December 31, 2013 and \$0.2 million in the year ended December 31, 2012. In 2015, we do not expect that our total net pension benefit will be material.

We did not make any contributions to the Pension Plans in 2014 or 2013. We do not expect to make any material contributions to either of the Pension Plans in 2015.

See Note 15 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 57% of our cash receipts in 2014 and 58% of our cash receipts in 2013; and

the Pell program, which represented, in aggregate, approximately 24% of our cash receipts in 2014 and 24% of our cash receipts in 2013.

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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 2014 and approximately 13% in 2013.

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, 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 2014 and 2013 fiscal years, none of our institutions derived more than approximately 81% of its revenue from Title IV Programs under the 90/10 Rule calculation. In the aggregate, we derived approximately 80% of our revenue in 2014 and 82% of our revenue in 2013 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 ten days before the start of each academic term.

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 2014 and 2013, we received minimal cash payments from private education loan lenders related to our students' cost of education in 2014 and 2013.

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 and, therefore, the accounts receivable from students to us, as well as revenue, decreased in 2014 and 2013, as we began awarding the Opportunity Scholarship at all of our ITT Technical Institute campuses. The Opportunity Scholarships awarded in 2014 and 2013 and, to a lesser extent, other factors had the effect of reducing our Core Operations revenue per student by approximately 4.7% in 2014 compared to 2013.

**Operations.** Net cash flows from operating activities increased \$59.1 million to \$136.8 million in the year ended December 31, 2014 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 total student enrollment.

Accounts receivable less allowance for doubtful accounts was \$46.4 million as of December 31, 2014 compared to \$99.5 million as of December 31, 2013. Days sales outstanding decreased 16.8 days to 17.5 days at December 31, 2014 compared to 34.3 days at December 31, 2013. Our accounts receivable balance and days sales outstanding at December 31, 2014 decreased primarily due to, in order of significance:

a decrease in internal student financing caused by an increase in 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 increased 52.6% to \$261.2 million in 2014 compared to \$171.1 million in 2013.

In the year ended December 31, 2013, net cash flows from operating activities decreased \$29.9 million to \$77.7 million compared to \$107.6 million in the year ended December 31, 2012. The decrease in net cash flows from operating activities was primarily due to a decrease in funds received as a result of lower student enrollments and the \$46.0 million payment that we made to settle the litigation and absolve us from any further obligations under the 2007 RSA. The decrease was partially offset by lower income tax and compensation-related payments.

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**Investing.** Capital expenditures, including expenditures for facility renovation, expansion and construction, totaled \$6.1 million in 2014, \$5.2 million in 2013 and \$18.2 million in 2012. 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 4 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.

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 13 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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Consolidation. See Note 13 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt.

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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Consolidation.

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. We believe that the amounts receivable from students to us has decreased, and will continue to decrease in future periods, as more students utilize the Opportunity Scholarship, instead of internal student financing.

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Our revenue decreased in the year ended December 31, 2014 compared to the prior year, primarily as a result of the increase in institutional scholarships and awards provided to our students. As a result of the increase in institutional scholarships and awards, our revenue decreased \$90.6 million in the year ended December 31, 2014 compared to the year ended December 31, 2013 and \$108.3 million in the year ended December 31, 2013 compared to the year ended December 31, 2012. We believe that the reduction in our Core Operations revenue per student in 2014 compared to 2013 was primarily attributable to the amount of institutional scholarships that we awarded in 2014 compared to 2013. The increase in institutional scholarships and awards in the year ended December 31, 2014 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.

In 2013 and 2012, we increased the amount of internal student financing that we provided to our students. 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 increased amount of internal student financing that we previously provided to our students has also exposed us to greater credit risk. In addition, we have the risk of collection with respect to our internal student financing which contributed to an increase in our bad debt expense as a percentage of revenue. 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.

The introduction and increased utilization of the Opportunity Scholarship has significantly decreased the need for us to provide internal student financing to our students. Days sales outstanding decreased 16.8 days to 17.5 days as of December 31, 2014, compared to 34.3 days at December 31, 2013. As of December 31, 2014, our accounts receivable less allowance for doubtful accounts decreased \$53.1 million, or 53.4%, to \$46.4 million compared to \$99.5 million as of December 31, 2013, primarily due to:

a decrease in internal student financing caused by an increase in the utilization of the Opportunity Scholarship by our students; and

a decrease in total student enrollment.

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, 2014:

	Total	Payments Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
<b>Contractual Obligations</b>					

	(In thousands)				
Operating lease obligations	\$ 149,958	\$ 41,207	\$ 63,843	\$ 36,764	\$ 8,144
Term Loans <sup>(a)</sup>	123,178	19,291	103,887	0	0
PEAKS Senior Debt <sup>(b)</sup>	114,702	43,299	28,401	24,816	18,186
CUSO Secured Borrowing Obligation <sup>(c)</sup>	192,670	20,813	46,129	48,028	77,700
<b>Total</b>	<b>\$ 580,508</b>	<b>\$ 124,610</b>	<b>\$ 242,260</b>	<b>\$ 109,608</b>	<b>\$ 104,030</b>
<b>Other Commitments</b>					
Letters of credit fees <sup>(d)</sup>	\$ 21,203	\$ 2,815	\$ 8,063	\$ 10,325	\$ 0

- (a) The Term Loans are our borrowings under the Financing Agreement. The amounts shown consist of the required quarterly principal payment amounts and quarterly administrative fees, as well as the required monthly interest payment amounts. It does not include any amounts that we may have to pay pursuant to the mandatory prepayment provision based on excess cash flow, as described in the Financing Agreement, because of the uncertainty of the amount of any excess cash flow. Interest payment amounts have been calculated based on their scheduled payment dates using the interest rate charged on our borrowings as of December 31, 2014. See Note 13 Debt of the Notes to Consolidated Financial Statements, for a further discussion of the Financing Agreement.
- (b) The PEAKS Senior Debt represents the PEAKS 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, 2014. There is no separate liability recorded on our Consolidated Balance Sheet as of December 31, 2014 for the PEAKS Guarantee, because this liability was eliminated upon the PEAKS



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Consolidation. We do, however, have significant payment obligations under the PEAKS Guarantee, as further discussed in Note 16 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 interest rate charged on the PEAKS Senior Debt as of December 31, 2014. 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 9 Variable Interest Entities, Note 13 Debt and Note 16 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, 2014. There is no separate liability recorded on our Consolidated Balance Sheet as of December 31, 2014 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 9 Variable Interest Entities of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Secured Borrowing Obligation.
- (d) Represents the estimated amount of fees that we believe we will be required to pay in each of the periods shown related to the letters of credit issued for our account that were outstanding as of December 31, 2014. We estimated the amount of fees due on the letters of credit in each of the periods assuming that the letters of credit that were outstanding as of December 31, 2014 will remain outstanding in the same amount over the next five years, except for the ED Letter of Credit, which we assumed would remain outstanding until November 4, 2019. The estimated fee amounts have been calculated using the rates specified in the Amended Credit Agreement under which they were issued. See Note 13 Debt of the Notes to Consolidated Financial Statements, for a further discussion of these fees. As of December 31, 2014, the amount of the letters of credit that we had caused to be issued was \$82.1 million. The face amounts of the letters of credit are not included in the amounts shown in the table because they do not constitute a type of contractual obligation that is required to be disclosed in the table, and we cannot reasonably predict if or when the letters of credit may be drawn upon. In addition, we have provided cash collateral in the amount of approximately \$89.3 million related to the letters of credit. In the event that any of the letters of credit are drawn upon, the issuing bank would be able to access the related cash collateral to satisfy such draw. See Off-Balance Sheet Arrangements , below, for further discussion of the letters

of credit.

The table above does not reflect unrecognized tax benefits of \$24.9 million and accrued interest related to unrecognized tax benefits of \$6.1 million, because we cannot reasonably predict the timing of the resolution of the related tax positions. We believe it is reasonably possible that we could pay approximately \$1.0 million within the 12 months following December 31, 2014 to resolve certain income tax audits for which we have recorded an unrecognized tax benefit. See Note 14 – Income Taxes of the Notes to Consolidated Financial Statements, for additional information on the unrecognized tax benefits as of December 31, 2014.

### **Off-Balance Sheet Arrangements**

As of December 31, 2014, 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 nine 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.

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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 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, 2014, the total face amount of those surety bonds was approximately \$19.0 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 have 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 is 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 13 Debt and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the ED Letter of Credit.

Beginning on September 30, 2014, our consolidated financial statements include the CUSO. 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 Sheet as of December 31, 2014. While we no longer record a contingent liability for the CUSO RSA on our Consolidated Balance Sheet beginning September 30, 2014, our obligations under the CUSO RSA remain in effect. See Note 9 Variable Interest Entities and Note 16 Commitments and Contingencies of the Notes to Consolidated Financial Statements, for a further discussion of the CUSO Consolidation. See also Part I, Item 1A Risk Factors Risks Related to Recent Developments *The CUSO Consolidation could have a material adverse effect on our consolidated financial statements and our compliance with covenants and metrics to which we are subject.*

**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 the year ended December 31, 2014, and approximately 98% from tuition and approximately 2% from tool kit sales and student fees in each of the years ended December 31, 2013 and 2012. 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.

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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, 2014, institutional scholarships and awards amounted to, in aggregate, approximately \$261.2 million, compared to approximately \$171.1 million in the year ended December 31, 2013.

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 10 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.

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:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>		
Cost of education services	\$ 4,790	\$ 4,799	\$ 6,084
Student services and administrative expense	5,546	6,839	10,574
<b>Total stock-based compensation expense</b>	<b>\$ 10,336</b>	<b>\$ 11,638</b>	<b>\$ 16,658</b>
Income tax (benefit)	(3,980)	(4,481)	(6,414)
	<b>\$ 6,356</b>	<b>\$ 7,157</b>	<b>\$ 10,244</b>

As of December 31, 2014, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately \$9.0 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 two years.

See also Note 1 Business and Significant Accounting Policies and Note 7 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 the students' credit profiles and our historical collection experience related to amounts owed by our students with similar credit profiles. 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.

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***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, 2014 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 Sheet.

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 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.



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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.

**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.

The following table sets forth information regarding the recurring fair value measurement of our financial assets as of December 31, 2014:

Description	Fair Value Measurements at Reporting Date Using			
	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
	(In thousands)			
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 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:

<b>Type of Property and Equipment</b>	<b>Estimated Useful Life</b>
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. We consider a note receivable to be impaired when it is probable that we will be unable to collect all amounts of principal and interest owed to us under the terms of the underlying note. If the present value of the expected future cash flows from the note receivable is less than the carrying value of the note receivable, we recognize an impairment loss in the amount of the difference.

**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.

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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 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 over the 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 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 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

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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 3 New Accounting Guidance of the Notes to Consolidated Financial Statements.

## **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 Amended Credit Agreement, 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, 2014.

## **Item 8. Financial Statements and Supplementary Data.**

The information required by this Item appears on pages F-1 through F-62 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, 2014. 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, 2014, because of material weaknesses (collectively, the *Material Weaknesses*) in our ICFR described in Management's Report on Internal Control Over Financial Reporting included in this filing. Notwithstanding the *Material Weaknesses*, 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.

### ***Management's Plan for Remediation***

Our management and Board of Directors are committed to the remediation of the *Material Weaknesses*, 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 deficiencies that gave rise to the *Material Weaknesses*, which primarily include:

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 process, our income tax reporting process, and our accounting for leasehold improvements; and

engaging supplemental internal and external resources.

We believe these measures will remediate the control deficiencies. 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 Weaknesses* have been remediated. Therefore, the *Material Weaknesses* have not been remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the *Material Weaknesses*, we may determine that additional measures are required to address the control deficiencies.

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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 Weaknesses 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 Weaknesses 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.

***Prior Material Weaknesses and Remediation Measures***

We disclosed in Management's Report on Internal Control Over Financial Reporting of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, that there were matters that constituted material weaknesses in our ICFR (the 2013 Material Weaknesses). Specifically, we did not maintain effective internal controls related to:

the assessment of events that could affect the determination of whether we are the primary beneficiary of VIEs in which we hold a variable interest;

the assessment of the completeness and accuracy of the data maintained by the servicer of the private education loans that are owned by a variable interest entity that we were required to consolidate;

the review of assumptions and methodologies developed by third-party consultants to project guarantee obligations under the CUSO RSA; and

the timely identification and communication of information relevant to the private education loan programs to those members of our management who are responsible for our financial reporting processes.

We committed to remediating the control deficiencies that constituted the 2013 Material Weaknesses by implementing changes to our ICFR. In 2014, we implemented measures to remediate the underlying causes of the control deficiencies that gave rise to the 2013 Material Weaknesses, including, without limitation:

establishing new roles in executive management and financial reporting;

implementing additional oversight and review;

engaging additional third-party consultants to assist with assessing the data received from the servicer of private education loans for the purpose of valuation of the loans and related obligations;

engaging a third-party consultant to assist us in compiling and reviewing the financial reporting related to the VIEs that we consolidate; and

establishing more formalized communications for matters related to the private education loan programs.

Our management concluded that the remedial measures were sufficient to remediate all but the deficiency related to the data maintained by the servicer of the private education loans. Because certain of the corrective actions specific to this deficiency have not been fully implemented as of the date of this report, this deficiency was not considered to be fully remediated as of December 31, 2014.

We continue to maintain appropriate focus on these critical accounting areas and believe that the measures that we have implemented have remediated the identified control deficiencies that constituted three of the four 2013 Material Weaknesses and have strengthened our ICFR.



***Changes in Internal Control Over Financial Reporting***

In addition to the changes noted above, we have evaluated the changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014, and have concluded that the following changes to our ICFR that occurred during the quarter ended December 31, 2014 have materially affected, or are reasonably likely to materially affect, our ICFR:

establishing new roles in executive management and financial reporting;

implementing additional oversight and review;

engaging additional third-party consultants to assist with assessing the data received from the servicer of private education loans for the purpose of valuation of the loans and related obligations;

engaging a third-party consultant to assist us in compiling and reviewing the financial reporting related to the VIEs that we consolidate; and

establishing more formalized communications for matters related to the private education loan programs.

***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, 2014 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* (1992) issued by The Committee of Sponsoring Organizations of the Treadway Commission, as stated in its report dated May 29, 2015, which appears on page F-3 of this Annual Report and is incorporated herein by reference.

**Item 9B. Other Information.**

***Impairment Charge***

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. See Note 12 Goodwill and Other Intangibles to our Notes to Consolidated Financial Statements, for a further discussion of the impairment charges.

***Amendment to Financing Agreement***

On May 26, 2015, we entered into the FA Consent with Cerberus, as collateral agent and administrative agent, and the lenders party thereto. Pursuant to the FA Consent, Cerberus and the lenders under the Financing Agreement consent to an extension to June 15, 2015 of the deadline by which we are required to deliver to them the financial statements, projections and compliance certificate required under Sections 7.01(a)(ii) and 7.02(a)(iv) of the Financing Agreement

for our fiscal quarter ended March 31, 2015. The foregoing description of the FA Consent is qualified in its entirety by reference to the FA Consent, a copy of which is filed herewith as Exhibit 10.46 and is incorporated herein by reference.

*Amendment to CEO Letter Agreement*

On May 26, 2015, we and Kevin M. Modany, our Chief Executive Officer, entered into a second amendment (the Second Amendment ) to the letter agreement between Mr. Modany and us dated August 4, 2014 (as amended, the Modany Letter Agreement ). Pursuant to the Second Amendment, the parties agreed to extend the Applicable Period (as provided for and defined in the Modany Letter Agreement) to August 31, 2015. The foregoing description of the Second Amendment is qualified in its entirety by reference to the Second Amendment, a copy of which is filed herewith Exhibit 10.69 and is incorporated herein by reference.

*2015 Annual Meeting of Shareholders*

Our Board of Directors has established July 27, 2015 as the new date of our 2015 Annual Meeting of Shareholders (the 2015 Annual Meeting ). Because the date of the 2015 Annual Meeting has been changed by more than 30 days from the anniversary of the 2014 Annual Meeting of Shareholders, a different deadline applies for submission of proposals by shareholders intended to be included in our 2015 proxy statement and form of proxy. Shareholders who wish to have a proposal considered for inclusion in our proxy materials for the 2015 Annual Meeting pursuant to Rule 14a-8 under the Exchange Act, must ensure that such proposal is received by our Secretary, Ryan L. Roney, at 13000 N. Meridian Street, Carmel, Indiana 46032 on or before the close of business on June 8, 2015, which we have determined to be a reasonable time before we expect to begin to print and send our proxy materials. Any such proposal must also meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy materials for the 2015 Annual Meeting. The June 8, 2015 deadline will also apply in determining whether notice of a shareholder proposal is timely for purposes of exercising discretionary voting authority with respect to proxies under Rule 14a-4(c) of the Exchange Act.

In addition, in accordance with the requirements contained in our By-Laws, shareholders who wish to bring business before the 2015 Annual Meeting outside of Rule 14a-8 of the Exchange Act or to nominate a person for election as a director must ensure that written notice of such proposal (including all of the information specified in our By-Laws) is received by our Secretary, Ryan L. Roney, at the address specified above no later than the close of business on June 8, 2015. Any such proposal must meet the requirements set forth in our By-Laws in order to be brought before the 2015 Annual Meeting.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance.**

##### **Directors and Executive Officers**

The following is the biographical information with respect to our directors and our executive officers as of May 20, 2015. Unless otherwise specified, the occupation of each individual has been the same for the past five years.

C. David Brown, age 63, 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 63, 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,

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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 53, 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 64, 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 been a partner at the Law Offices of John E. Dean since June 2005. Mr. Dean has also served as a principal of Washington Partners, LLC, a public affairs firm, since June 2002. Mr. Dean has been a Director of ours since December 1994.

James D. Fowler, Jr., age 71, served as senior vice president and director, human resources of ITT Industries, Inc., an industrial, commercial machinery and equipment company, from November 2000 until his retirement in October 2002. Mr. Fowler has been a Director of ours since April 1994.

Joanna T. Lau, age 56, 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 61, 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 65, 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 62, 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.

John A. Yena, age 74, has served as chairman of the board, emeritus of Johnson & Wales University ( J&W ), a postsecondary educational institution, since November 2011. Mr. Yena served as chairman of the board of J&W from

June 2004 until November 2011. During the past five years, he was also a director of Bancorp Rhode Island, Inc. Mr. Yena has been a Director of ours since May 2006.

Kevin M. Modany, age 48, has served as our Chief Executive Officer since April 2007. In August 2014, Mr. Modany notified our Board of Directors that he intended to resign as our Chief Executive Officer. Following Mr. Modany's notice, we entered into the Modany Letter Agreement, pursuant to which he would remain Chief Executive Officer during the Applicable Period. Mr. Modany will resign his position as our Chief Executive Officer on the last day of the Applicable Period. Mr. Modany served as a Director of ours from July 2006 until August 4, 2014 and as our Chairman from February 2008 until August 4, 2014. He also served as our President from April 2005 through March 2009.

Eugene W. Feichtner, age 59, 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.

Daniel M. Fitzpatrick, age 55, has served as our Executive Vice President, Chief Financial Officer since April 2009. In April 2015, Mr. Fitzpatrick notified us of his plan to retire as our Chief Financial Officer. Following Mr. Fitzpatrick's notice, we entered into the Fitzpatrick Letter Agreement, pursuant to which he would remain Chief Financial Officer during the Transition Period. Mr. Fitzpatrick will resign his positions with us on the last day of the Transition Period. Mr. Fitzpatrick served as our Senior Vice President, Chief Financial Officer from June 2005 through March 2009.

Gerald T. Hope, age 52, has served as our Executive Vice President, Chief Information Officer since September 2013. Mr.

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Hope served as global head, chief information officer of corporate systems of Thomson Reuters Corporation (Thomson Reuters), a leading source of intelligent information for the world's businesses and professionals, from February 2009 until September 2013. Prior to that, Mr. Hope served as general manager and vice president of operations of Thomson Reuters from May 2005 until November 2007.

Angela K. Knowlton, age 52, 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 42, 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 67, 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 43, has served as Senior Vice President, President The Center for Professional Development since January 2013. 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.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and Directors, and persons who own more than 10% of our common stock, to file reports of ownership with the SEC. These persons also are required to furnish us with copies of all

Section 16(a) forms they file. Based solely on our review of copies of such forms received by us, or written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that, during 2014, all of our executive officers, Directors and greater than 10% shareholders complied with all applicable filing requirements.

## **Code of Ethics**

We have adopted a written Code of Business Conduct and Ethics (the Code) in accordance with Item 406 of Regulation S-K under the Exchange Act that is applicable to our Directors and employees, including our principal executive officer, principal financial officer and principal accounting officer or controller, or persons performing similar functions. The Code is posted on our website at [www.ittesi.com](http://www.ittesi.com).

We also intend to promptly disclose on our website any amendments that we make to the Code. To the extent that our Board of Directors grants any waiver of the Code for any of our Directors or executive officers, we intend to disclose the waiver on our website within four business days following the grant of the waiver.

### **Audit Committee**

Our Audit Committee was established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Board of Directors has adopted a written charter for the Audit Committee, a current copy of which may be obtained from our website at [www.ittesi.com](http://www.ittesi.com). The functions of the Audit Committee are to assist the Board of Directors in its oversight of:

the integrity of our financial statements and other financial information provided by us to any governmental body or the public;

our compliance with legal and regulatory requirements;

our systems of internal controls regarding finance, accounting, legal compliance and ethics that our management and the Board of Directors establish;

our auditing, accounting and financial reporting processes generally;

the qualifications, independence and performance of our independent registered public accounting firm; and

the performance of our compliance and internal audit functions.

The Audit Committee also performs other functions as detailed in the Audit Committee's charter, including, without limitation, appointing, compensating, retaining and overseeing our independent registered public accounting firm and pre-approving all services to be provided to us by our independent registered public accounting firm.

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The Audit Committee held 11 meetings during 2014. The members of the Audit Committee in 2014 until August 4, 2014, were John F. Cozzi, John E. Dean (Chairperson), Joanna T. Lau and Thomas I. Morgan. From August 4, 2014 until October 6, 2014, the members of the Audit Committee were John F. Cozzi, Joanna T. Lau and Thomas I. Morgan (Chairperson). The current members of the Audit Committee are, and since October 6, 2014 have been, Jerry M. Cohen (Chairperson), John F. Cozzi, Joanna T. Lau and Thomas I. Morgan. Our Board of Directors has determined that Jerry M. Cohen is an audit committee financial expert, as that term is defined in Item 407(d)(5) of Regulation S-K under the Exchange Act, and is independent pursuant to our categorical standards of independence, Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 of the Exchange Act. Each of the current members of the Audit Committee is independent and each of the members of the Audit Committee in 2014 while serving as such was independent, pursuant to our categorical standards of independence, Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 of the Exchange Act.



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**Item 11. Executive Compensation.**  
**Compensation Discussion and Analysis**

This discussion explains the compensation program for our executives, including the Named Executive Officers. The individuals included as Named Executive Officers in this document are:

Kevin M. Modany, who served as our Chief Executive Officer during all of 2014;

Daniel M. Fitzpatrick, who served as our Chief Financial Officer during all of 2014; and

John E. Dean, Eugene W. Feichtner and Ronald F. Hamm, who were our three other most highly compensated executive officers during 2014.

Mr. Dean has been a Director of ours since 1994, and in August 2014, he became our Executive Chairman of the Board upon the resignation of Mr. Modany as Chairman and a Director, and Mr. Modany's notification of his intent to resign as our Chief Executive Officer in 2015. As Executive Chairman, Mr. Dean is an employee and executive officer of ours, and therefore he was considered along with our other executive officers in the determination of the Named Executive Officers for 2014. Mr. Dean's compensation as Executive Chairman was determined by the Compensation Committee separately from the compensation of the other Named Executive Officers, and he is not a participant in the short-term compensation element of our executive compensation program, he is not eligible for perquisites from us, and he is not a participant in any of our employee benefit programs or plans, other than the ESI 401(k) Plan and statutorily-mandated employee benefits (such as worker's compensation coverage). As a result, in this discussion, Mr. Dean's compensation is described separately from the descriptions of the compensation programs and determinations applicable to our other executive officers, including the other Named Executive Officers.

Mr. Hamm resigned from our company effective May 15, 2015. This discussion provides information regarding Mr. Hamm to the extent it applies based on his status with our company at the applicable time.

This discussion describes the following:

the objectives of our compensation program;

what our compensation program is designed to reward;

each element of compensation;

why we choose to pay each compensation element;

how we determine the amount to pay and, where applicable, the formula with respect to each compensation element;

how each compensation element and our decisions regarding that element relate to our overall compensation objectives and affect our decisions regarding other compensation elements; and

our consideration of the results of the most recent shareholder advisory vote on the compensation of our Named Executive Officers and any related effect on our executive compensation policies and decisions.

**Executive Summary.** Our executive compensation program is designed to attract, retain and motivate skilled executives. Based on its review of all of the elements of our executive officers' compensation, the Compensation Committee found that the compensation paid to our executive officers in 2014 was reasonable in light of market practices and effective in fulfilling the Committee's compensation objectives, as described below. See *Compensation Objectives*.

In 2011, the Compensation Committee was required to make changes to our executive compensation program as a result of the Incentive Compensation Prohibition affecting our industry that severely limits the types of, and bases for awarding, compensation to employees of postsecondary education institutions, like us. The ED has defined this prohibition on incentive compensation to include anything of value for services rendered (other than a fixed salary or wage) that is:

based in any part, directly or indirectly, on activities engaged in at any point in time through the completion of an educational program for the purpose of enrollment of students for any period of time or the award of financial aid to students; and

provided to any employee who undertakes recruiting or admitting of students, makes decisions about and awards federal student financial aid, or has responsibility for any such activities.

The limiting language of the Incentive Compensation Prohibition is very broad and the ED has not provided sufficient guidance on the breadth or scope of the regulations. As a result, we believe that the Incentive Compensation Prohibition can be interpreted to cover all of our employees (including our executive officers) and to prohibit the payment of compensation based on any performance-related metric, including common performance metrics such as earnings, earnings per share and total shareholder return since such metrics are driven by student enrollment and amounts received from financial aid. We reached this conclusion after consulting with regulatory counsel and considering that any alternative conclusion would involve a high level of risk for our company. An institution that is found to be in noncompliance with the Incentive Compensation Prohibition could face significant monetary penalties, limitations on its operations and/or termination of its eligibility to participate in all federal student financial aid programs.

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The Compensation Committee determined that, while it would prefer to continue to base executive compensation on performance-related metrics, the risk of violating the Incentive Compensation Prohibition prevented, and will prevent, the Committee from basing compensation amounts or adjustments on individual or company performance after the July 1, 2011 effective date of the Incentive Compensation Prohibition. The Compensation Committee recognized that, while the short- and long-term performance of both the individual executive officers and our company will no longer be used in compensation decisions, such performance will be reviewed by the full Board of Directors when evaluating the continued employment of each executive officer. The Compensation Committee determined that it would continue to be guided by the following objectives in determining the compensation of our executives:

competition;

alignment with shareholder interests; and

focus.

As a result of the prohibition on basing any portion of the executives' compensation on performance, the Compensation Committee did not establish an annual bonus program for 2014, but it did establish a short-term compensation element based on certain management objectives in 2014. As a result, in order to achieve the objectives noted above, the Compensation Committee used the following compensation elements as part of the 2014 executive compensation program, as described in more detail below under *Compensation Elements* :

base salary;

short-term compensation;

an annual grant of equity compensation;

employee benefits;

perquisites; and

qualified retirement savings.

***Compensation Objectives.*** The Compensation Committee is guided by the following objectives in determining the compensation of our executives:

***Competition.*** The Committee believes that compensation should reflect the competitive marketplace in order for us to attract, retain and motivate talented executives.

***Alignment with Shareholder Interests.*** Compensation should include equity-based compensation awards in order to align the executives' interests with those of our shareholders.

***Focus.*** The Committee believes that certain elements of compensation should provide some security to our executives to allow them to continue to focus on our financial and operating results, their individual performance and their job responsibilities.

***Compensation Elements.*** The elements of our compensation program, a description of the purpose of each element and the objectives that each element supports are shown in the table below. See *Compensation Objectives*.

<b>Compensation Element</b>	<b>Purpose</b>	<b>Link to Compensation Objectives</b>
Base Salary	Fixed cash component used to help us attract, motivate and retain our executives.	Competition Focus
Short-Term Compensation	Variable cash component used to help us motivate and retain our executives.	Competition Focus
Equity-Based Compensation (e.g., Time-Based Stock Options and/or Restricted Stock Unit Awards)	Used to promote equity ownership by our executives.  Aligns the executives' interests with those of our shareholders.	Competition Alignment with Shareholder Interests Focus

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Qualified Retirement Savings (i.e., 401(k) Plan Contributions)	Used to help us provide stable compensation and some security to our executives, in order to help them save for retirement on a tax-deferred basis.	Competition Focus
Nonqualified Deferred Compensation	Provided some security to our executives and helped them save a portion of their compensation for retirement on a tax-deferred basis.	Deferrals and contributions are no longer made under these plans.
Pension Benefits (i.e., Qualified and Nonqualified Retirement Plan Earnings)	Allowed executives to focus on their job responsibilities while employed and provided some security upon retirement.	Benefit accruals under our pension plans were frozen as of March 31, 2006.
Employee Benefits	Provides stable compensation and some security to our executives, in order to allow them to focus on their job responsibilities.	Competition Focus
Perquisites	Used to recognize our executives based on their responsibilities and to help us attract, motivate and retain our executives.	Competition
Potential Payments Upon Termination of Employment or a Change in Control of Us	Provides for payments in connection with a change in control and/or involuntary termination of employment.  Provides some security to our executives to help them focus on their job responsibilities and to encourage them to remain employed with us during a critical time of a potential change in control.	Competition Alignment with Shareholder Interests Focus

**2014 Compensation**

**Base Salary.** Salaries provide a necessary element of stability in the total compensation program and, as such, are not subject to variability. Salaries are set and administered to reflect the value of the job in the marketplace. In January 2014, the Compensation Committee established the salary levels for the Named Executive Officers (other than Mr. Dean), that became effective on February 10, 2014, based on a review of:

the base salaries of executives in the same or similar positions at the comparator companies that the Committee uses for benchmarking as described under *Process for Establishing Compensation*

Benchmarking ;

the area and level of job responsibilities of each executive;

inflationary factors; and

tenure and industry knowledge and experience.

The following table sets forth the annualized base salary information for each of the Named Executive Officers other than Mr. Dean as of February 10, 2014.

<b>Named Executive Officer</b>	<b>2014 Annualized Base Salary</b>	<b>Dollar Increase Over Prior Year</b>	<b>Percentage Increase Over Prior Year</b>
Kevin M. Modany	\$ 824,076	\$ 24,002	3.0%
Daniel M. Fitzpatrick	\$ 412,000	\$ 12,000	3.0%
Eugene W. Feichtner	\$ 319,411	\$ 9,303	3.0%
Ronald F. Hamm	\$ 334,750	\$ 9,750	3.0%

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In connection with his appointment as Executive Chairman in August 2014, the Compensation Committee approved an annual base salary for Mr. Dean of \$575,000. At the request of the Compensation Committee, Towers Watson & Co. ( Towers Watson ) conducted a market comparison review of the base salary amounts for similar executive chairman positions. Towers Watson advised the Compensation Committee that the base salary amount for Mr. Dean was reasonable and within the range of market comparisons.

**Short-Term Compensation.** In March 2014, the Compensation Committee established a short-term compensation element for our executive officers that would be payable in early 2015, if certain management objectives (the 2014 Management Objectives ) were accomplished during 2014. The 2014 Management Objectives were not in any way related to the enrollment of students or the award of financial aid to avoid violating the Incentive Compensation Prohibition. Instead, the 2014 Management Objectives consisted of various business objectives that relate to certain initiatives that are part of our strategic plan. The 2014 Management Objectives and their relative weightings are as follows:

	<b>Management Objectives</b>	<b>Weight</b>
1.	Obtain requisite state and accrediting commission authorizations for corporate training, continuing education and/or test preparation programs.	20%
2.	Design and implement an operational optimization plan to increase ITT/ESI s operational efficiencies for the corporation.	20%
3.	Obtain requisite federal, state and accrediting commission authorizations for additional health science, technology and/or engineering programs at the ITT Technical Institutes at both the associate degree and diploma levels.	20%
4.	Improve the 2014 ITT Technical Institute quarterly student evaluation average score.	10%
5.	Revise and begin teaching the six identified high volume, high-impact program courses at the majority of ITT Technical Institute campuses.	10%
6.	Acquire a training company to support strategic initiatives associated with The Center for Professional Development.	10%
7.	Obtain requisite federal, state and accrediting commission authorizations for a dual high school diploma and associate degree program at an ITT Technical Institute.	5%
8.	Obtain requisite federal, state and accrediting commission authorizations for additional nursing programs at the ITT Technical Institutes at both the associate and bachelor degree levels	5%

On January 26, 2015, the Compensation Committee reviewed the results of the 2014 Management Objectives and determined the extent to which each of the 2014 Management Objectives was accomplished by our executive officers in 2014. The Committee assigned one to five points to each 2014 Management Objective, based on its determination of the extent to which the objective was accomplished. The number of points assigned to each 2014 Management Objective was multiplied by the weight associated with that 2014 Management Objective, resulting in a weighted number of points for that 2014 Management Objective. The weighted number of points for all of the 2014 Management Objectives were added together, resulting in a total number of weighted points. The following table sets forth the maximum short-term compensation percentage associated with each range of the total number of weighted points that could be assigned to the 2014 Management Objectives by the Compensation Committee:

<b>Total Weighted Points</b>	<b>Maximum Short-Term Compensation Percentage</b>
4.76 - 5.00	200.0%
4.51 - 4.75	187.5%
4.26 - 4.50	175.0%
4.01 - 4.25	162.5%
3.76 - 4.00	150.0%
3.51 - 3.75	137.5%
3.26 - 3.50	125.0%
3.01 - 3.25	112.5%
2.76 - 3.00	100.0%
2.51 - 2.75	87.5%
2.26 - 2.50	75.0%
2.01 - 2.25	62.5%
1.76 - 2.00	50.0%

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<b>Total Weighted Points</b>	<b>Maximum Short-Term Compensation Percentage</b>
1.51 - 1.75	41.7%
1.26 - 1.50	33.3%
1.00 - 1.25	25.0%

Based on the Committee's determination of the extent to which each of the 2014 Management Objectives was accomplished, the total number of weighted points for the 2014 Management Objectives was 2.60. That total number of weighted points corresponds to a maximum short-term compensation percentage of 87.5%, based on the above table.

To determine the maximum short-term compensation amount that an officer could receive, the Committee multiplied the maximum short-term compensation percentage (determined as described above) by a standard short-term compensation percentage of annualized base salary, ranging from 32% to 100%, with the percentage depending on the officer's position, and then multiplied that result by the officer's annualized base salary. The Committee utilized the annualized base salary as of December 31, 2014 for Messrs. Modany, Fitzpatrick and Hamm, and as of February 9, 2015 for Mr. Feichtner. The Committee used Mr. Feichtner's base salary rate as of that date, because it reflected the increase in his base salary related to the increased duties and responsibilities assumed by him in connection with his appointment as our President and Chief Operating Officer in August 2014. The following table sets forth the 2014 standard short-term compensation percentage of annualized base salary, for Messrs. Modany, Fitzpatrick and Hamm, as of December 31, 2014, and for Mr. Feichtner, as of February 9, 2015:

<b>Named Executive Officer</b>	<b>2014 Standard Short-Term Compensation Percentage of Annualized Base Salary</b>
Kevin M. Modany	100%
Daniel M. Fitzpatrick	65%
Eugene W. Feichtner	60%
Ronald F. Hamm	55% <sup>(1)</sup>

(1) During 2014, the Compensation Committee reduced the 2014 standard short-term compensation percentage for Mr. Hamm from 60% to 55% in connection with the Committee's approval of the reimbursement of up to \$30,000 in commuting expenses incurred by Mr. Hamm in 2014.

An executive officer's actual short-term compensation payment, however, could be more or less than the officer's potential short-term compensation amount as calculated as described above. An executive officer's actual short-term compensation amount also took into consideration the Compensation Committee's discretionary assessment of the officer's individual contribution toward accomplishing each 2014 Management Objective. The Committee did not make any further adjustments to any of the Named Executive Officers' 2014 short-term compensation from the amounts calculated as described above.

On January 26, 2015, the Compensation Committee approved the payment of the 2014 short-term compensation amount in cash to each of the Named Executive Officers, other than Mr. Dean, as follows:

Named Executive Officer	2014 Short-Term Compensation	
	2014 Short-Term Compensation Payment	Payment as a Percentage of 2014 Annualized Base Salary
Kevin M. Modany	\$ 721,067	87.5%
Daniel M. Fitzpatrick	\$ 234,325	56.9%
Eugene W. Feichtner	\$ 245,000	61.3% <sup>(1)</sup>
Ronald F. Hamm	\$ 161,098	48.1%

(1) Represents the percentage of Mr. Feichtner's 2015 annualized base salary.

On January 26, 2015, the Compensation Committee also approved an additional bonus payment of \$100,000 to Mr. Fitzpatrick in recognition of his significant efforts and time spent on company matters in 2014. That additional bonus payment amount is not included in the amount of Mr. Fitzpatrick's 2014 short-term compensation payment shown in the table above, because it was a discretionary payment that was not part of the 2014 short-term compensation element. Mr. Dean was not a participant in the 2014 short-term compensation element, and he did not receive any discretionary or other bonus payments from us related to 2014.

Equity-Based Compensation. The Compensation Committee believes that equity-based compensation should be a major component of the total compensation for executives. The Committee believes that the use of equity in the payment of compensation enhances our

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executives' commitment to our company over the long-term, because the value of equity-based compensation awards, such as time-based stock options, restricted stock and RSUs, helps align the executives' interests with those of our shareholders. The type and value of the equity-based compensation awards vary based on the executive's level and type of responsibilities.

In January 2014, the Compensation Committee reviewed market information regarding the form and grant value of equity awards granted at comparator companies and companies in the survey data provided by Towers Watson. Although the Committee did not change its philosophy regarding targeting the upper quarter of the range of equity-based compensation at comparator companies, in 2014 the Committee determined to grant the same number of shares to each executive that it had granted in the prior year, despite the decline in our stock price, knowing that it resulted in a grant value that was lower than in the prior year.

The following table sets forth information about the stock options and RSUs that were granted under the ITT Educational Services, Inc. Amended and Restated 2006 Equity Compensation Plan (the "Amended 2006 Plan") effective February 4, 2014 to each Named Executive Officer, other than Mr. Dean, as described above.

Named Executive Officer	Stock Options			RSUs		Date Compensation Committee Took Action <sup>(2)</sup>
	Number of Securities Underlying Option Granted	Exercise Price	Expiration Date	Number of RSUs	Grant Date <sup>(1)</sup>	
Kevin M. Modany	62,500 <sup>(3)</sup>	\$ 27.94	02/04/21	28,125 <sup>(4)</sup>	02/04/14	01/20/14
Daniel M. Fitzpatrick	15,000 <sup>(3)</sup>	\$ 27.94	02/04/21	6,750 <sup>(4)</sup>	02/04/14	01/20/14
Eugene W. Feichtner	10,000 <sup>(3)</sup>	\$ 27.94	02/04/21	4,500 <sup>(4)</sup>	02/04/14	01/20/14
Ronald F. Hamm	10,000 <sup>(3)</sup>	\$ 27.94	02/04/21	4,500 <sup>(4)</sup>	02/04/14	01/20/14

- (1) The effective date of the stock option and RSU grants.
- (2) The stock option and RSU grants were approved by the Compensation Committee during a Committee meeting on January 20, 2014, and had an effective grant date of February 4, 2014.
- (3) Nonqualified stock option granted at 100% of the closing market price of a share of our common stock on February 4, 2014, the effective date of the grant. One-third of the option is exercisable on the anniversary date of the grant in each of the years 2015, 2016 and 2017.
- (4) The period of restriction for this RSU grant lapses in thirds on the anniversary date of the grant in each of the years 2015, 2016 and 2017.

In connection with his appointment as Executive Chairman, the Compensation Committee approved a grant of RSUs to Mr. Dean on August 4, 2014. The RSUs had a value of \$1,000,000, based on the closing price of the Company's common stock on the date of grant, which resulted in a grant of 129,534 RSUs to Mr. Dean. The value of the RSUs granted to Mr. Dean was included as part of the Towers Watson market comparison review of the compensation for similar executive chairman positions, and Towers Watson advised the Compensation Committee that the value of Mr. Dean's RSU award was reasonable and within the range of market comparisons. The RSUs will vest, subject to Mr. Dean's continued service as an employee and/or a member of our Board of Directors, on August 4, 2015 or, if earlier, upon his termination of employment due to death or disability. Mr. Dean will continue to vest in the equity-based awards granted to him in connection with his service as a non-employee Director of ours.

2015 Compensation

**Base Salary.** In January 2015, the Compensation Committee determined not to make any changes to the annual base salaries for any of the Named Executive Officers (other than Mr. Feichtner) based on the current market and business conditions and inflationary considerations. The Committee did not utilize or review specific peer group comparator information. As previously disclosed, the Compensation Committee had approved an increase in Mr. Feichtner's base salary from \$319,411 in 2014 to \$400,000 in 2015, to be effective as of February 9, 2015 (the date in 2015 that other employees at our headquarters received compensation adjustments), as a result of the increased duties and responsibilities assumed by Mr. Feichtner in connection with his appointment as our President and Chief Operating Officer in August 2014.

**Short-Term Compensation.** In January 2015, the Compensation Committee established a short-term compensation element for our executive officers (other than Mr. Modany, due to his previously-announced intention to resign from the company, and Mr. Dean) that will be payable in early 2016, if certain management objectives (the 2015 Management Objectives ) are accomplished during 2015. As with the 2014 Management Objectives, the 2015 Management Objectives are not in any way related to the enrollment of students or the award of financial aid to avoid violating the Incentive Compensation Prohibition. Instead, the 2015 Management Objectives consist of various business objectives that relate to certain initiatives that are part of our strategic plan. The 2015 Management Objectives and their relative weightings are as follows:

	<b>Management Objectives</b>	<b>Weight</b>
1.	Resolve certain outstanding legal and regulatory matters involving the company.	20%

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2. Optimize the total number of contact hours in the first academic quarter of the ITT Technical Institutes program offerings.	20%
3. Effect matters relating to the third-party loan servicing organizations for the private education loan programs.	15%
4. Improve the 2015 ITT Technical Institute quarterly student evaluation average score.	15%
5. Reduce the current and future carrying cost and collateralization of the letter of credit that the company is required to post for the benefit of the U.S. Department of Education.	10%
6. Improve the average NCLEX score of the 2015 graduates of the Breckinridge School of Nursing and Health Sciences nursing program.	10%
7. Acquire a training company to support strategic initiatives associated with The Center for Professional Development at ITT Technical Institute.	5%
8. Obtain requisite federal, state and accrediting commission authorizations for the ITT Technical Institutes to offer a dual high school diploma and associate degree program.	5%

The determination of the extent to which the 2015 Management Objectives are accomplished by our executive officers will be made by the Compensation Committee in early 2016. The Committee intends to assign zero to five points to each 2015 Management Objective, based on the extent to which the Committee determines the objective was accomplished. The number of points assigned to each 2015 Management Objective will be multiplied by the weight associated with that 2015 Management Objective, resulting in a weighted number of points for that 2015 Management Objective. The weighted number of points for all of the 2015 Management Objectives will be added together, resulting in a total number of weighted points. The following table sets forth the maximum short-term compensation percentage that is associated with each range of the total number of weighted points that are assigned to the 2015 Management Objectives by the Compensation Committee:

<b>Total Weighted Points</b>	<b>Maximum Short-Term Compensation Percentage</b>
4.76 - 5.00	200.0%
4.51 - 4.75	187.5%
4.26 - 4.50	175.0%
4.01 - 4.25	162.5%
3.76 - 4.00	150.0%
3.51 - 3.75	137.5%
3.26 - 3.50	125.0%
3.01 - 3.25	112.5%
2.76 - 3.00	100.0%
2.51 - 2.75	87.5%
2.26 - 2.50	75.0%
2.01 - 2.25	62.5%
1.76 - 2.00	50.0%
1.51 - 1.75	41.7%
1.26 - 1.50	33.3%
1.00 - 1.25	25.0%

To determine the maximum short-term compensation amount that an officer may receive, the maximum short-term compensation percentage (determined as described above) will be multiplied by a standard short-term compensation percentage of annualized base salary as of December 31, 2015, ranging from 32% to 100%, with the percentage depending on the officer's position, and the result will be multiplied by the officer's annualized base salary. The

following table sets forth the 2015 standard short-term compensation percentage of annualized base salary as of December 31, 2015 for each of the Named Executive Officers who currently are participants in the 2015 short-term compensation element:

<b>Named Executive Officer</b>	<b>2015 Standard Short-Term Compensation Percentage of Annualized Base Salary</b>
Daniel M. Fitzpatrick	65%
Eugene W. Feichtner	70% <sup>(1)</sup>

(1) Reflects an increase from the prior year, due to Mr. Feichtner's appointment as our President and Chief Operating Officer in August 2014.

An executive officer's actual short-term compensation payment, however, may be more or less than the officer's potential short-term compensation amount as calculated as described above. An executive officer's actual short-term compensation amount will be based

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on the Compensation Committee's discretionary assessment of the officer's individual contribution toward accomplishing each 2015 Management Objective. Any 2015 short-term compensation payment will be made in cash. The Compensation Committee may, in its sole discretion, modify the terms of the short-term compensation element at any time before it is paid.

**Equity-Based Compensation.** In January 2015, the Compensation Committee approved an award of the same number of shares subject to equity awards to each executive that it had awarded in the prior year, except in the cases of: (i) Mr. Modany, who did not receive a 2015 equity grant due to his previously-announced intention to resign from the company; (ii) Mr. Feichtner, whose 2015 equity grant was increased due to the increased duties and responsibilities assumed by him in connection with his appointment as our President and Chief Operating Officer in August 2014; and (iii) Mr. Dean, who did not receive a 2015 equity award in connection with his service as our Executive Chairman. Due to the fact that we were not current in our filings with the SEC at the time of the Committee's approval, the Committee determined that the effective grant date of the equity awards will be the third trading day following the date that we become current in our filings with the SEC (unless within that three trading day period, we again become no longer current in our filings with the SEC). Pursuant to the Committee's approval, the following equity awards will be granted to Messrs. Fitzpatrick and Feichtner:

Mr. Fitzpatrick 15,000 stock options and 6,750 RSUs;

Mr. Feichtner 17,500 stock options and 7,875 RSUs;

the stock option awards will have a per share exercise price equal to the per share closing sale price of our common stock on the NYSE on the effective grant date, will have a term of seven years from the effective grant date and will vest in thirds on February 9, 2016, February 9, 2017 and February 9, 2018; and

the RSUs will vest in thirds on February 9, 2016, February 9, 2017 and February 9, 2018.

**Other Elements of Compensation**

**Retirement Plans**

**Qualified Retirement Savings.** Our executives participate in our ESI 401(k) Plan, a qualified defined contribution plan, that is designed to provide substantially all of our employees with a tax-deferred, long-term savings vehicle. See Equity Compensation and Qualified Savings Plans *ESI 401(k) Plan*.

**Nonqualified Deferred Compensation.** Due to federal limitations that preclude our highly-compensated employees from fully participating in the ESI 401(k) Plan, we established the ESI Excess Savings Plan, an unfunded, nonqualified deferred compensation plan for a select group of our management, including executive officers. We froze the ESI Excess Savings Plan, effective for plan years beginning on and after January 1, 2008, such that executives may no longer make elective deferrals and we no longer make contributions under the ESI Excess Savings Plan. Amounts previously credited to an executive under the ESI Excess Savings Plan, 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. See Nonqualified Deferred Compensation Plans *ESI Excess Savings Plan*.

In addition, we established the ESI Executive Deferred Bonus Compensation Plan (the *Deferred Bonus Plan*), an unfunded, nonqualified deferred compensation plan, for a select group of our management and highly-compensated employees, including the Named Executive Officers. The *Deferred Bonus Plan* allows eligible employees to defer payment of all or a portion of his or her annual bonus compensation and to earn interest on any annual bonus compensation payable in the form of cash and deferred under the plan. Since the Committee did not establish an annual bonus award component of executive compensation for 2014, executives did not receive any compensation that they could elect to defer under the *Deferred Bonus Plan* with respect to 2014. See *Nonqualified Deferred Compensation Plans* *Deferred Bonus Plan*.

The terms of the ESI Excess Savings Plan and the *Deferred Bonus Plan*, including the interest rate on the earnings on the Named Executive Officers' account balances under each plan, are based on common and typical terms and types of nonqualified deferred compensation plans that had been adopted by other publicly traded companies at the time that we adopted those plans.

*Pension Benefits.* Pension benefits provide retirement compensation that is based on the salary and bonus compensation paid to the employee during his or her employment. We froze the benefit accruals under the ESI Pension Plan and ESI Excess Pension Plan for all participants in the plans on March 31, 2006, such that no further benefits accrue under those plans after March 31, 2006. Participants do, however, continue to be credited with vesting service and interest credits according to the terms of those plans. See *Pension Plans* *ESI Pension Plan* and *ESI Excess Pension Plan*.

#### Employee Benefits and Perquisites

*Employee Benefits.* All of our executives, other than Mr. Dean, are eligible to participate in our employee benefits, which include medical and dental benefits, vision insurance, life insurance, flexible spending account, tuition reimbursement, disability insurance, vacation leave, sick leave, bereavement leave, ITT Technical Institute tuition discounts and an employee assistance program that can help employees find answers to various kinds of personal concerns by offering consultation, support, information, planning and referrals. The employee benefits are generally available on a non-discriminatory basis to all full-time and part-time regular employees.



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*Perquisites.* We also provide limited perquisites to our executives, including the Named Executive Officers, other than Mr. Dean, that vary based on the executive's level. The perquisites include use of a company car for Mr. Modany only, a tax return preparation and financial planning allowance, tickets to sporting, theater and other events, enhanced disability benefits, an annual physical examination and relocation assistance for newly-hired executive officers from outside the Indianapolis metropolitan area whom we ask to relocate. With respect to Mr. Hamm, in each of 2014 and 2015, the Compensation Committee approved the reimbursement of commuting expenses incurred by Mr. Hamm in each of those years, up to \$30,000 per year. In connection with that approval, the Committee eliminated Mr. Hamm's perquisite related to tickets to sporting, theater and other events in each year, and reduced his standard short-term compensation percentage of annualized base salary from 60% to 55% under the short-term compensation element in each year.

The value and type of perquisites made available to our executives are based on the value and type of perquisites that had been made available to executives at other publicly-traded companies at the time that we began making those perquisites available, and at the time of each subsequent annual review by the Compensation Committee of those perquisites. The Compensation Committee believes that the limited perquisites assist in furthering the objectives of attracting, retaining and motivating executives, as well as helping our executives focus on their job responsibilities. The Compensation Committee also believes that our executives value the perquisites provided to them and, given that the cost to us of the perquisites is not significant, the Committee has determined to continue providing these perquisites to our executives.

The perquisites that we provided to our Named Executive Officers in 2014 are disclosed in the Summary Compensation Table and footnotes thereto. See Summary Compensation Table. In January 2015, the Compensation Committee approved the value and type of perquisites to be provided in 2015 to the Named Executive Officers, which are generally consistent with the value and type of perquisites provided to them in 2014. The aggregate incremental cost to us in 2015 for providing all of the 2015 perquisites to the Named Executive Officers is not expected to exceed \$150,000.

**Potential Payments Upon Termination of Employment or a Change In Control of Us**

*Modany Letter Agreement.* On August 4, 2014, in connection with Mr. Modany's notification to our Board of Directors of his intention to resign as our Chief Executive Officer, we entered into the Modany Letter Agreement, pursuant to which Mr. Modany agreed to remain our Chief Executive Officer (or Special Advisor) through the Applicable Period, which subsequently has been extended to August 31, 2015. The Modany Letter Agreement provides that, subject to Mr. Modany's compliance with the release requirement and the restrictive covenants and cooperation provisions, Mr. Modany will provide consulting services to us during the 18 months following his resignation as Chief Executive Officer, and we will pay Mr. Modany a monthly fee equivalent to his current monthly base salary (which is \$68,673) and there will be continued vesting of his equity-based awards. Mr. Modany will have continued use of the company-provided automobile during the consulting period. Further, we will pay Mr. Modany a lump sum of \$20,598, which is equal to the cost of 18 months of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1984, as amended (COBRA), for continued health, dental and vision coverage.

At the request of the Compensation Committee, Towers Watson conducted a market comparison review of the terms of the Modany Letter Agreement. Towers Watson advised the Compensation Committee that the terms of the Modany Letter Agreement were reasonable and within the range of market comparisons. The Compensation Committee also approved the payment by us of the fees and expenses of Mr. Modany's counsel incurred in connection with the negotiation of the Modany Letter Agreement.

*Fitzpatrick Letter Agreement.* On April 29, 2015, in connection with Mr. Fitzpatrick's notification to us of his plan to retire as our Chief Financial Officer, we entered into the Fitzpatrick Letter Agreement, pursuant to which Mr. Fitzpatrick agreed to remain our Chief Financial Officer (or Special Advisor) through the Transition Period. The Fitzpatrick Letter Agreement provides that subject to Mr. Fitzpatrick's compliance with the release requirement and the restrictive covenants and cooperation provisions, he will provide consulting services to us during the 18 months following his resignation as Chief Financial Officer, and we will pay Mr. Fitzpatrick a monthly fee equivalent to his current monthly base salary (which is \$34,333) and there will be continued vesting of his equity-based awards. Further, we will pay Mr. Fitzpatrick a lump sum of \$20,598, which is equal to the cost of 18 months of coverage under COBRA for continued medical, prescription drug, dental and vision coverage. The Compensation Committee also approved the payment by us of the fees and expenses of Mr. Fitzpatrick's counsel incurred in connection with the negotiation of the Fitzpatrick Letter Agreement.

*Senior Executive Severance Plan.* Our executive officers, including the Named Executive Officers (other than Mr. Dean), participate in the ITT Educational Services, Inc. Senior Executive Severance Plan (the Senior Executive Severance Plan), which provides for severance benefits if:

we terminate the executive's employment, other than for cause, or when the executive terminates his or her employment for good reason, in each case within two years after the occurrence of a change in control of us; or

we terminate the executive's employment, other than for cause, if a change in control of us is imminent. The benefits vary depending on the executive's level and include, among other things, two or three times the executive's base salary and bonus and a stipend equal to two or three times the annual cost of certain employee benefits. See Potential Payments Upon Termination or Change in Control *Senior Executive Severance Plan.*

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The Compensation Committee believes that a change in control transaction, or potential change in control transaction, would create uncertainty regarding the continued employment of our executives. This is because many change in control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage our executives to remain employed with us during an important time when their continued employment in connection with or following a transaction is often uncertain and to help keep our executives focused on our business rather than on their personal financial security, we believe that providing certain of our executives with severance benefits upon the specified terminations of employment is in the best interests of our company and our shareholders.

The benefits under the Senior Executive Severance Plan are not payable merely because a change in control transaction occurs or is imminent. Instead, payment of the severance benefits is only triggered if a change in control has occurred or is imminent and certain types of termination of employment occur within certain limited time periods. The Compensation Committee has determined that this double trigger requirement is appropriate and reasonable.

If benefits are triggered under the Senior Executive Severance Plan, our Chief Executive Officer would be entitled to payments under the three times multiplier and the other covered executives would be entitled to payments under the two times multiplier. Our Chief Executive Officer would also be entitled to certain benefits that would not be available to the other covered executives, including that our Chief Executive Officer would receive a tax gross-up payment on any excise taxes and that his severance benefits would not be limited in the event of the imposition of an excise tax. The Compensation Committee believes that our Chief Executive Officer should receive the higher multiplier and the enhanced benefits given his high level of responsibility and the substantial duties that he has with us, as well as the fact that it is common market practice for a chief executive officer to receive a higher level of severance benefits than other executive officers.

The amount and type of severance pay made available to our executive officers are based on common and typical amounts and types of severance pay that were made available to executives by other publicly-traded companies at the time that these benefits were determined.

*Other Plans.* In addition, awards granted under our equity compensation plans and all or a portion of the contributions, benefits and earnings under our qualified savings plan, nonqualified deferred compensation plans and pension plans may vest and/or become payable to the participating employees, including the Named Executive Officers, if the participating employee's employment terminates in certain situations or we undergo a change in control. See Potential Payments Upon Termination or Change In Control. The accelerated vesting and payments are useful in providing security to our executives and helps them to focus on their job responsibilities, instead of the safety of compensation that they have previously been awarded or paid. Further, the accelerated vesting of equity compensation awards upon a change in control:

provides employees with the same opportunities as shareholders, who are free to sell their equity at the time of the change in control event and thereby realize the value created at the time of the transaction;

ensures that employees do not have the fate of their outstanding equity tied to the future success of the new and different company that results from the change in control;

can be a strong retention device during change in control discussions, particularly for those employees whose equity represents a significant portion of their total pay package; and

treats all employees the same regardless of their employment status after the transaction.

***Process for Establishing Compensation.*** The Compensation Committee of our Board of Directors has overall responsibility and authority for approving and evaluating the compensation programs and policies pertaining to our executives and Directors. Each year, the Compensation Committee reviews all elements of all of our executive officers' compensation and the internal pay equity of our Chief Executive Officer's compensation compared to our other executive officers' compensation. The Compensation Committee also annually reviews the tally of total compensation of our executives in order to determine that the amount of compensation is within appropriate competitive parameters. The tally information is not, however, a key factor in the Committee's current compensation decisions, because the tally information is reflective of past competitive market practice.

The Compensation Committee has met, and will continue to meet, in executive sessions which are not attended by any of our employees. The Committee regularly reports its activities to our Board of Directors.

When making executive compensation decisions, the Compensation Committee also considers, for all executives other than our Chief Executive Officer, the recommendation of our Chief Executive Officer. Our Chief Executive Officer recommends salary levels, short-term compensation amounts, equity-based compensation awards and perquisites for our other executives based on their salary grade level. Our Chief Executive Officer's compensation is determined solely by the Compensation Committee with the assistance of the Committee's independent compensation consultant. The Compensation Committee applies the same principles for executive compensation in determining our Chief Executive Officer's compensation that it applies in determining the compensation of our other executive officers. The Compensation Committee has established a higher level of compensation for our Chief Executive Officer than the levels for our other executive officers, due to:

the high level of responsibility that he has with us;

the substantial duties and responsibilities that he has to us; and

the fact that the market and comparator compensation information demonstrates higher levels of compensation for chief executive officers both within and outside of our industry.

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*Independent Compensation Consultant.* The Compensation Committee directly retains a consultant from an independent compensation consulting firm to provide advice on aspects of our executive and Director compensation programs. The Committee requests written reports and holds meetings with the consultant, which are not attended by any of our employees, in order to obtain independent opinions on compensation proposals. The independent compensation consultant helps the Committee determine the amount and, where applicable, the formula for each element of the compensation program for each executive. The independent compensation consultant also assists the Committee in selecting the companies used for benchmarking and comparison purposes in certain years. The Compensation Committee retained the independent compensation consulting firm Towers Watson to advise it on 2014 and 2015 compensation determinations.

*Determinations.* In determining and recommending the compensation of our executives, the Compensation Committee consults with its independent compensation consulting firm and, along with our Chief Executive Officer, makes assessments after deliberate and thorough review and consideration of various factors. In 2014 and 2015, these factors included:

the level and area of job responsibilities of the executive;

inflationary factors; and

tenure and industry knowledge and experience.

In 2014, these factors also included the competitive marketplace and, in particular, how the level of an executive's compensation compares with the compensation paid to executives in the same or similar positions and with similar responsibilities at comparator companies. In 2015, the Compensation Committee did not review a detailed analysis of compensation paid to executives at comparator companies, but it did review a report from Towers Watson regarding executive compensation pay level trends, short- and long-term incentive plan design trends and other trends in executive compensation.

In January 2014, the Compensation Committee met in executive session to review a tally of the total compensation received by each of the executive officers in 2013 and information provided by Towers Watson. The Committee noted that there had not been any clarification by the ED regarding the types of compensation that are prohibited and which activities and employees are covered by the Incentive Compensation Prohibition and, therefore, it would continue to avoid basing executive compensation on performance-related metrics. In January 2014, the Committee determined to continue the short-term compensation element of executive compensation, and it established the management objectives for 2014 under such element. See *Compensation Elements 2014 Compensation Short-Term Compensation.*

In January 2015, the Compensation Committee met in executive session to review a tally of the total compensation received by each of the executive officers in 2014 and information provided by Towers Watson. The Committee noted that there still had not been any clarification regarding the types of compensation that are prohibited and which activities and employees are covered by the Incentive Compensation Prohibition and, therefore, it would continue to avoid basing executive compensation on performance-related metrics. In January 2015, the Committee determined to continue the short-term compensation element of executive compensation, and it established the management objectives for 2015 under such element. See *Compensation Elements 2015 Compensation Short-Term Compensation.*

*Shareholder Feedback.* In January 2015, the Compensation Committee considered the fact that, at the 2014 Annual Meeting of Shareholders, our shareholders approved the compensation paid to our Named Executive Officers as disclosed in the Proxy Statement for our 2014 Annual Meeting, and that the votes cast for that advisory proposal totaled approximately 84% of the shares represented at the 2014 Annual Meeting and entitled to vote. The Committee noted that this level of support was significantly higher than the 54% level of support for the same proposal at the 2013 Annual Meeting Shareholders. As a result of the higher level of support at the 2014 Annual Meeting of Shareholders, the Committee believes that, overall, our shareholders are not dissatisfied with our executive compensation program in light of the limitations imposed by the Incentive Compensation Regulations. The Committee also considered discussions that our Chief Executive Officer and Chief Administrative and Legal Officer had prior to the 2014 Annual Meeting with certain of our shareholders that own a significant percentage of our common stock regarding our executive compensation program and any concerns that such shareholders had related to it. We were told by some of those shareholders that while they would prefer that we base executive compensation on performance-related metrics, as we did prior to 2011, they understand that we have concluded that to do so would present a significant risk of violating the Incentive Compensation Prohibition. Despite understanding these limitations on our executive compensation program, some of those shareholders may be required to follow formulaic internal or external voting guidelines and, therefore, may be forced to cast a vote against our executive compensation proposal when otherwise they may not have. In addition, some of the shareholders expressed their support for the Compensation Committee's objective that the compensation of executives be reflective of the competitive marketplace in an effort to attract, retain and motivate talented executives. The Compensation Committee evaluated the feedback received from these shareholders and reiterated that it too would prefer to include performance-based metrics in our executive compensation program, but that the risk of violating the Incentive Compensation Prohibition is too high. As a result, the Committee determined that it is not able to make changes to the program at this time to address concerns related to the lack of performance-based metrics. The Committee noted that it continues to monitor the ED for any guidance that might reduce the risk of certain types of performance-based compensation violating the Incentive Compensation Prohibition.

*Equity-Based Compensation.* The Compensation Committee is responsible for determining equity-based compensation paid to our executives. All equity-based compensation awards to our executives at the Senior Vice President level and above are granted exclusively by our Compensation Committee. The Compensation Committee has delegated limited authority to our Chief Executive Officer to grant equity-based compensation awards to our newly-hired executives below the Senior Vice President level and other key employees.

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Equity-based compensation is granted to our executives and other key employees under the following circumstances:

the Compensation Committee has typically made grants to our executives and other key employees annually during its first regularly scheduled meeting of the calendar year, which grants become effective prospectively;

the Compensation Committee has typically made grants to our newly-hired executives at the Senior Vice President level and above at a Committee meeting occurring either:

prior to the date that the executive's employment with us begins, in which case the effective date of the grant is typically the executive's first day of employment with us but, if the markets are closed on that day, is the next subsequent day that the markets are open; or

after the executive's employment with us begins, in which case the effective date of the grant is the date of the Committee meeting or a subsequent date specified by the Committee at its meeting; and

pursuant to authority delegated to him by the Compensation Committee, our Chief Executive Officer typically grants equity-based compensation to our newly-hired executives below the Senior Vice President level and other key employees on the newly-hired employee's first day of employment with us.

In each of the above circumstances, the exercise price of any stock option granted is the closing market price of a share of our common stock on the effective date of the stock option grant. In addition, the number of any RSUs is either determined prior to the effective date of grant or is based on the closing market price of a share of our common stock on the effective date of the RSU grant. The grants of equity-based compensation to newly-hired employees that otherwise would have occurred after April 30, 2014 were postponed due to our company not being current in its filings with the SEC. Those grants will be made following our company becoming current in its SEC filings.

We do not time our release of material non-public information for the purpose of affecting the value of our executives compensation, nor do we time our grants of equity-based compensation to take advantage of material non-public information. Nevertheless, our process for granting equity-based compensation (as described above) may result in equity-based compensation, including stock options, being granted to our executives and other key employees at times when our Board of Directors or the Compensation Committee is in possession of material non-public information about us. This possibility is not taken into account in determining whether to make the equity-based compensation awards or the amount or value of those awards.

***Benchmarking.*** The Compensation Committee believes that compensation decisions are complex and from time to time it reviews the compensation levels paid to executives in the same or similar positions at other comparator companies. Although the Compensation Committee does not rely solely on benchmarking to determine any element of compensation or overall compensation, the Compensation Committee has utilized compensation data in connection with decisions regarding the competitive positioning of the Company's compensation levels.

In setting and administering the compensation program and policies for our executives, the Committee attempts to target:

the cash portion of the compensation of our executives to the median of the range of the cash compensation provided to executives of comparator companies, based on the dollar amount of such compensation; and

the equity-based compensation of our executives not to exceed the upper quarter of the range of equity-based compensation provided to executives of comparator companies, based on the number of shares awarded as a percentage of the number of shares outstanding.

This is intended to result in targeting the overall total direct compensation of our executives to the upper third of the range of compensation provided to executives of comparator companies. The Committee targets the upper third of the range, because it believes that part of the range will help us attract and retain a higher than average level of executive.

The companies used for the comparisons vary from time to time. For 2014 compensation determinations, the Compensation Committee reviewed compensation information provided by Towers Watson and contained in the 2013/2014 Towers Watson Compensation DataBank ( Towers Watson Survey ) and the 2013/2014 Mercer Executive Compensation Database ( Mercer Survey ). The Towers Watson Survey consisted of 241 companies with less than \$3 billion in annual revenue. The Mercer Survey consisted of 445 companies. The Compensation Committee did not select specific companies from among the survey participants. Information from the surveys was adjusted to our company's size by using regression analysis to reflect each executive's scope of revenue responsibility.

Additionally, our Compensation Committee used information from proxy statements of a company-specific peer group as a supplement to the general industry published survey data, which remains a primary data source given the similarity in size to our company of the companies included. The proxy peer group data was primarily used for the Chief Executive Officer and Chief Financial Officer positions, because these positions are most directly comparable to the positions at our company. The proxy peer group companies were used for industry financial comparison purposes and as a source of data for compensation plan design characteristics. In consultation with Towers Watson, the Compensation Committee considered the following characteristics in choosing which companies to include in the peer group:

U.S.-based companies that either compete with our company for market share or operate in similar industries as our company;

competitors for senior executive talent;

revenue and market capitalization; and

the degree to which certain companies list our company as a compensation peer.



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As a result, the Compensation Committee reviewed proxy data obtained from proxy materials of the following 13 companies in our industry:

American Public Education, Inc.;	Education Management Corporation;
Apollo Education Group, Inc.;	Grand Canyon Education, Inc.;
Bridgepoint Education, Inc.;	K12 Inc.;
Capella Education Company;	Lincoln Educational Services Corporation;
Career Education Corp.;	Strayer Education, Inc.; and
Corinthian Colleges, Inc.;	Universal Technical Institute, Inc.
DeVry Education Group, Inc.;	

For 2015 compensation determinations, the Compensation Committee did not utilize a company-specific peer group or other detailed comparator information. The Committee reviewed information from Towers Watson that reviewed trends in executive compensation pay levels, trends in short- and long-term incentive plan design and other executive compensation trends. That information contained data regarding the primary components of compensation from the 2014/2015 Towers Watson CDB General Industry Executive Compensation Survey for the chief executive officer position and aggregate top 20 highest paid executives. That survey consisted of 342 companies. Companies used in that analysis reflected the general industry, and the Compensation Committee did not select specific companies from among the survey participants. Data provided in the analysis reflected broad industry trends related to executive compensation. The information also included executive compensation trends in companies in the S&P 1500.

***Additional Compensation Matters.***

*Clawback, Stock Ownership and Hedging Policies.* We do not have any policies regarding automatic adjustment or recovery of compensation paid or awarded to our executives in the event any of the performance measures upon which that compensation was paid or awarded are restated or adjusted, such that the compensation paid or awarded would have been less under the restated or adjusted performance measures.

We do not impose any specific equity or security ownership requirements on our executives. We believe that the equity-based compensation paid to our executives serves to align their interests with those of our shareholders. We believe that it is improper and inappropriate for any employee or Director to engage in short-term or speculative transactions involving our securities. We have a policy that prohibits our officers and Directors from purchasing or selling any publicly-traded options for our securities. This includes the trading of any call or put, the writing of any call or put, hedging or the use of collars. Further, our officers and Directors are prohibited from purchasing any financial instruments (including without limitation prepaid variable forward contracts, equity swaps, collars and exchange funds) that are designed to hedge or offset any decrease in the market value of equity securities granted to or held by such person. In addition, our officers and Directors are prohibited from holding our securities in a margin account or otherwise pledging our securities as collateral for a loan.

*The Impact of Accounting and Tax Treatments on the Compensation.* Section 162(m) of the Internal Revenue Code of 1986, as amended (the IRC) limits the allowable deduction for compensation paid or accrued with respect to the chief executive officer and each of the three other most highly compensated executive officers (other than the chief financial officer) of a publicly held corporation to no more than \$1 million per year. This limitation does not apply to compensation that meets the requirements under Section 162(m) and the regulations promulgated thereunder for qualified performance-based compensation. Our equity-based compensation plans have been approved by our shareholders and include a fixed limit on the number of stock options that may be granted to any individual in any

given year, and the exercise price is based on the fair market value of our stock on the date of grant. As a result, any future gains that may be realized on the stock options granted under our equity-based compensation plans should be exempt from the \$1 million limit on deductible compensation under Section 162(m). RSUs granted under our equity compensation plans, however, are subject to the 162(m) deduction limitation because the vesting of those RSUs is based on the passage of time instead of performance conditions. Further, the Committee's ability to maximize the tax deductibility of other forms of compensation beginning July 1, 2011 is limited by the Incentive Compensation Prohibition, because those regulations can be reasonably interpreted to prohibit the payment of performance-based compensation.

Section 409A of the IRC provides certain requirements for deferred compensation arrangements. Those requirements, among other things, limit flexibility with respect to the time and form of payment of deferred compensation. If a payment or award constitutes deferred compensation subject to Section 409A and the applicable requirements are not satisfied, the recipient could be subject to tax on the award and all other deferred compensation of the same type, and an additional 20% tax and interest at the underpayment rate plus 1%, at the time the legally binding right to the payment or award arises or, if later, when that right ceases to be subject to a substantial risk of forfeiture. Payments or awards under our plans and arrangements either are intended to not constitute deferred compensation for Section 409A purposes (and will thereby be exempt from Section 409A's requirements) or, if they constitute deferred compensation, are intended to comply with the Section 409A statutory provisions and final regulations.

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**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K under the Exchange Act with our management. Based on that review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and in our Proxy Statement for our 2015 Annual Meeting of Shareholders for filing with the U.S. Securities and Exchange Commission.

**Compensation Committee**

**John F. Cozzi**

**James D. Fowler, Jr.**

**Thomas I. Morgan, Chair**

**Samuel L. Odle**

**John A. Yena**

**Compensation-Related Risk Assessment**

Our Compensation Committee conducted an assessment of the risks related to our compensation policies and practices in January 2015. In conducting this assessment, the Compensation Committee noted several features of our compensation programs that reduce the likelihood of excessive risk-taking, including the following:

We have established internal controls, enterprise risk management and a compliance program to discourage and identify any excessive risk-taking by our employees.

There is a balanced mix of cash, equity, annual and longer-term components in the compensation program for our executives.

Due to