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)

x **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	**36-2061311**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
13000 North Meridian Street	
Carmel, Indiana	**46032-1404**
(Address of principal executive offices)	**(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	**Name of each exchange on which registered**
COMMON STOCK, $.01 PAR VALUE	**NEW YORK STOCK EXCHANGE, INC.**

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

NONE

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

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 x

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 x

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 x

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. x

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	x
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 x

$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 Repo 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:

School of Study	Fields
Business	accounting business administration financial services manufacturing marketing and advertising sales
Drafting and Design	architectural and construction drafting civil drafting computer-aided drafting electrical and electronics drafting

	industrial engineering technology interior design landscape architecture mechanical drafting multimedia communications
Electronics Technology	communications computer technology electronics product design and fabrication industrial electronics instrumentation telecommunications
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 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
Age		
19 or less	3%	3%
20 through 24	23%	25%
25 through 30	29%	29%
31 or over	45%	43%
Gender		
Male	55%	72%
Female	45%	28%
Race		
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.

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 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 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:

- 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:

- 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 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.

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

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 [(a)]	18.8%
2011 [(b)]	22.1%
2010	28.5%
2009	32.9%[(c)]

(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 1st and ends on June 30th 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 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 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 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.

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 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

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

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 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 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 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.

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

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.

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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.

	2014		2013	
Fiscal Quarter Ended	**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.

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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)				
Statement of Operations Data:					
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):

Year	**Estimated Regular Payments**	**Estimated Discharge Payments**	**Estimated Total Payments**	**Estimated Recoveries**
		(Dollar amounts in thousands)		
2015	$ 11,723	$ 2,709[(1)]	$ 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.

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.

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				
	Core Operations	PEAKS Trust	CUSO	Eliminations	GAAP Consolidated
	(Dollar amounts in thousands)				
Balance Sheet Data:					
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
Total current assets	279,930	8,725	5,932	(3,173)	291,414
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
Total assets	$ 660,778	$ 68,627	$ 26,606	$ (3,173)	$ 752,838
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
Total current liabilities	274,359	37,744	20,992	(10,362)	322,733