CAREER EDUCATION CORP
Form 10-K
February 27, 2014
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(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, 2013

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-23245

CAREER EDUCATION CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Common Stock, $0.01 par value

(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Securities Exchange Act of 1934. Yes ¨ No x

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant, based upon the $2.90 per share closing sale price of the Registrant s common stock on June 28, 2013 (the last business day of the Registrant s most recently completed second

quarter), was approximately $148,522,000. For purposes of this calculation, the Registrant s directors, executive officers and 10% or greater stockholders have been assumed to be affiliates. This assumption of affiliate status is not necessarily a conclusive determination for other purposes. As of February 14, 2014, the number of outstanding shares of Registrant s common stock was 67,149,898.

Portions of the Registrant s Notice of Annual Meeting and Proxy Statement for the Registrant s 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

Table of Contents

CAREER EDUCATION CORPORATION

FORM 10-K

TABLE OF CONTENTS

I
. BUSINESS
A. RISK FACTORS
B. UNRESOLVED STAFF COMMENTS
. PROPERTIES
. LEGAL PROCEEDINGS
. MINE SAFETY DISCLOSURES

II
. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
. SELECTED FINANCIAL DATA
. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
A. CONTROLS AND PROCEDURES
B. OTHER INFORMATION

III
0. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
1. EXECUTIVE COMPENSATION
2. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
3. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

IV
5. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

TURES

Table of Contents

PART I

Cautionary Note Regarding Forward-Looking Statements

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

ITEM 1. BUSINESS

As used in this Annual Report on Form 10-K, the terms we, us, our, the Company and CEC refer to Career Education Corporation and our wholly-owned subsidiaries. The terms school and university each refer to an individual, branded, proprietary educational institution owned by us and includes its campus locations. The term campus refers to an individual main or branch campus operated by one of our schools or universities.

BUSINESS OVERVIEW

The schools and universities that are part of the Career Education Corporation (CEC) family offer high-quality education to a diverse student population in a variety of career-oriented disciplines through online, on-ground and hybrid learning program offerings. We serve students from campuses throughout the United States, offering doctoral, master s, bachelor s and associate degrees and diploma and certificate programs.

Our institutions include, among others, American InterContinental University (AIU); Brooks Institute; Colorado Technical University (CTU); Harrington College of Design; International Academy of Design & Technology (IADT); Le Cordon Bleu North America (LCB); and Sanford-Brown Institutes and Colleges (SBI and SBC, respectively). Through our schools, we are committed to providing high-quality education, enabling students to graduate and pursue rewarding career opportunities.

Our website address is *www.careered.com*. The website includes a detailed listing of individual campus locations and web links to our schools and universities.

Our segments are determined in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280 *Segment Reporting* and are based upon how the Company analyzes performance and makes decisions. Each segment represents a group of postsecondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segments to enhance brand focus and operational alignment within each segment to more effectively execute our strategic plan.

During the fourth quarter of 2013, we completed the sale and transfer of control of our International Segment, which consisted of our INSEEC schools and the International University of Monaco located in France and Monaco, respectively. Accordingly, the results of operations for the International Segment are now reported within discontinued operations. All prior period results have been recast to reflect our reporting segments on a comparable basis.

Table of Contents

Our six reporting segments are described below.

University Schools:

Colorado Technical University (CTU) schools collectively offer academic programs in the career-oriented disciplines of business studies, information systems and technologies, criminal justice, computer science and engineering, and health sciences in an online, classroom or laboratory setting.

American InterContinental University (AIU) schools collectively offer academic programs in the career-oriented disciplines of business studies, information technologies, criminal justice and design technologies in an online, classroom or laboratory setting.

Career Schools:

Health Education includes our Sanford-Brown schools, along with Brown College, Briarcliffe College and Missouri College. These schools collectively offer academic programs in the career-oriented disciplines of health education, complemented by certain programs in business studies and information technology in a classroom, laboratory or online setting.

Culinary Arts includes our Le Cordon Bleu schools in North America which collectively offer hands-on educational programs in the career-oriented disciplines of culinary arts and patisserie and baking in the commercial-grade kitchens of Le Cordon Bleu. Le Cordon Bleu also provides online programs in culinary arts and hotel and restaurant management.

Design & Technology includes IADT, Harrington College of Design and Brooks Institute schools. These schools collectively offer academic programs primarily in the career-oriented disciplines of visual communications, fashion design, photography, interior design, graphic design and video production in a classroom, laboratory or online setting as well as continuing education and short-term vocational programs in the area of energy conservation.

Transitional Schools includes our campuses that are currently being taught out. See the Campus Locations table below for a listing of schools that comprise this segment. These campuses employ a gradual teach-out process, enabling them to continue to operate while current students complete their course of study; they no longer enroll new students. The results of operations for schools within the Transitional Schools segment will be reported within continuing operations for all periods presented until they complete their teach-out. As schools within Transitional Schools cease operations, the results of operation for all periods presented will be reflected within discontinued operations.

During the third and fourth quarters of 2013, we announced the teach-out of six additional campuses, including four campuses within Health Education and two campuses within Design & Technology. These campuses are now included in our Transitional Schools segment. In addition, during 2013 we completed the teach-out of four campuses, SBC Hazelwood, SBI Landover, SBC Milwaukee and IADT Schaumburg, and accordingly, the results of operations for these schools are now reported within discontinued operations. All prior period results have been recast to reflect our reporting segments on a comparable basis.

Revenues, operating income (loss) and total assets by reporting segment for each of the past three fiscal years are included in Note 18 Segment Reporting of the notes to our consolidated financial statements.

Table of Contents

CAMPUS LOCATIONS

Our operating segments, schools and campuses are summarized in the following table:

School and Campus Locations	Website
AMERICAN INTERCONTINENTAL UNIVERSITY (AIU):	www.aiuniv.edu
AIU Online, *Schaumburg, IL*	www.aiuonline.edu
AIU Atlanta, *Atlanta, GA*	
AIU Houston, *Houston, TX*	
AIU South Florida, *Weston, FL*	
COLORADO TECHNICAL UNIVERSITY (CTU):	www.coloradotech.edu
CTU Colorado Springs, *Colorado Springs, CO*	
CTU Denver, *Denver and Westminster, CO*(1)	
CTU Kansas City, *North Kansas City, MO*	
CTU Online, *Colorado Springs, CO*	
CULINARY ARTS:	
Le Cordon Bleu College of Culinary Arts (LCB)	www.chefs.edu
LCB Atlanta, *Tucker, GA*	
LCB Austin, *Austin, TX*	
LCB Boston, *Cambridge, MA*	
LCB Chicago, *Chicago, IL*	
LCB Dallas, *Dallas, TX*	
LCB Las Vegas, *Las Vegas, NV*	
LCB Los Angeles, *Pasadena and Hollywood, CA*(1)	
LCB Miami, *Miramar, FL*	
LCB Minneapolis/St. Paul, *Mendota Heights, MN*	
LCB Orlando, *Orlando, FL*	
LCB Portland, *Portland, OR*	
LCB Sacramento, *Sacramento, CA*	
LCB San Francisco, *San Francisco, CA*	
LCB Scottsdale (includes Online), *Scottsdale, AZ*	
LCB Seattle, *Seattle, WA*	
LCB St. Louis, *St. Peters, MO*	
DESIGN & TECHNOLOGY:	
Brooks Institute, *Ventura and Santa Barbara, CA*(1)	www.brooks.edu
Harrington College of Design, *Chicago, IL*	www.interiordesign.edu
International Academy of Design & Technology (IADT)	www.iadt.edu
IADT Chicago, *Chicago, IL*	
Everblue Training Institute, Huntersville, NC (a division of IADT Chicago)	www.everblue.edu
IADT Las Vegas, *Henderson, NV*	
IADT Online, *Tampa, FL*	
IADT Orlando, *Orlando, FL*	
IADT San Antonio, *San Antonio, TX*	

Table of Contents

School and Campus Locations	Website
DESIGN & TECHNOLOGY: (Cont):	
IADT Seattle, *Seattle, WA*	
IADT Tampa, *Tampa, FL*	
HEALTH EDUCATION:	
Briarcliffe College	www.briarcliffe.edu
Briarcliffe College, *Bethpage (includes Online) and Queens, NY* (1)	
Briarcliffe College, *Patchogue, NY*	
Brown College	www.browncollege.edu
Brown College, *Mendota Heights, MN*	
Brown College, *Brooklyn Center, MN*	
Missouri College, *Brentwood, MO*	www.missouricollege.edu
Sanford-Brown College (SBC)	www.sanford-brown.edu
SBC Atlanta, *Atlanta, GA*	
SBC Dallas, *Dallas, TX*	
SBC Houston, *Houston, TX*	
SBC San Antonio, *San Antonio, TX*	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu
SBI Ft. Lauderdale, *Ft. Lauderdale, FL*	
SBI Garden City, *Garden City, NY*	
SBI Iselin, *Iselin, NJ*	
SBI Jacksonville, *Jacksonville, FL*	
SBI New York, *New York, NY*	
SBI Tampa, *Tampa, FL*	
SBI Campus an affiliate of Sanford-Brown	www.sanford-brown.edu
Melville, NY	
TRANSITIONAL SCHOOLS:	
Collins College, *Phoenix, AZ*	www.collinscollege.edu
Colorado Technical University (CTU)	www.coloradotech.edu
CTU Pueblo, *Pueblo, CO*	
CTU Sioux Falls, *Sioux Falls, SD*	
International Academy of Design & Technology (IADT)	www.iadt.edu
IADT Detroit, *Troy, MI*	
IADT Nashville, *Nashville, TN*	
IADT Sacramento, *Sacramento, CA*	
Sanford-Brown College (SBC)	www.sanford-brown.edu
SBC Austin, *Austin, TX*	
SBC Boston, *Boston, MA*	
SBC Cleveland, *Middleburg Heights, OH*	
SBC Collinsville, *Collinsville, IL*	
SBC Columbus, *Columbus, OH*	
SBC Dearborn, *Dearborn, MI*(2)	
SBC Farmington, *Farmington, CT*	
SBC Fenton, *Fenton, MO*	

Table of Contents

School and Campus Locations	Website
TRANSITIONAL SCHOOLS: (Cont):	
SBC Grand Rapids, *Grand Rapids, MI*(2)	
SBC Hillside, *Hillside, IL*	
SBC Houston North Loop, *Houston, TX*	
SBC Indianapolis, *Indianapolis, IN*(2)	
SBC Phoenix, *Phoenix, AZ*	
SBC Portland, *Portland, OR*(2)	
SBC Skokie, *Skokie, IL*	
SBC St. Peters, *St. Peters, MO*	
SBC Tinley Park, *Tinley Park, IL*(2)	
SBC Tysons Corner, *McLean, VA*	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu
SBI Cranston, *Cranston, RI*(2)	
SBI Orlando, *Orlando, FL*	
SBI Pittsburgh, *Pittsburgh, PA*	
SBI Trevose, *Trevose, PA*	
SBI White Plains, *White Plains, NY*	
SBI Wilkins Township, *Pittsburgh, PA*	

(1) The first location listed represents the school s main campus location and the second location listed represents a satellite campus of the school. We define a satellite campus as a separate location of a main or branch campus that is in reasonable geographic proximity to, and is managed by, the related main or branch campus. Satellite campuses are not included in our campus count.

(2) These campuses, which are included in Transitional Schools as of December 31, 2013, have completed their teach-out as of the filing of this annual report on Form 10-K with the U.S. Securities and Exchange Commission (SEC).

INDUSTRY BACKGROUND AND COMPETITION

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

According to the National Center for Education Statistics (NCES), there were approximately 7,400 Title IV eligible postsecondary education institutions in the United States for the academic year 2012-13, including approximately 3,500 private, proprietary schools; approximately 2,000 public, non-profit schools; and approximately 1,900 private, non-profit schools. According to the U.S. Department of Education, in the fall of 2012 approximately 29 million students were attending institutions that participate in the various financial aid programs under Title IV of the Higher Education Act.

Our primary competitors in the publicly traded, proprietary postsecondary education industry are: Apollo Education Group, Inc., Bridgepoint Education, Inc., Capella Education Company, Corinthian Colleges, Inc., DeVry Education Group Inc., Education Management Corporation, Grand Canyon Education, Inc., ITT Educational Services, Inc., Kaplan, Inc (a division of the Graham Holdings Company) and Strayer Education, Inc. We also compete with a number of privately held, proprietary and non-profit postsecondary institutions. In addition, there is growing competition from online programs across postsecondary education institutions, including proprietary publicly traded and privately held institutions, as well as non-profit institutions.

Table of Contents

Our postsecondary institutions are subject to significant regulations. The Higher Education Act of 1965, as amended and reauthorized (HEA), and the related regulations govern all higher education institutions participating in federal student aid and loan programs under Title IV of the HEA (Title IV Programs), and provide for a regulatory triad by mandating specific regulatory responsibilities for each of the following:

- The accrediting agencies recognized by the U.S. Department of Education (ED or the Department);
- The federal government through ED; and
- State higher education regulatory bodies.

Recently, extensive and more complex ED regulations governing our institutions as well as others in the postsecondary education industry have been enacted. These new regulations coupled with the increased focus by the U.S. Congress on the role that proprietary educational institutions play in higher education, may cause increased competition across the industry as well as contribute to changes in business operating strategies.

Seasonality

Our quarterly revenues and income do not fluctuate significantly from quarter to quarter as a result of seasonality. The pattern of student enrollments can affect quarterly revenues and income, although historically we have not experienced significant fluctuations. Operating costs for our schools generally do not fluctuate significantly on a quarterly basis. Revenues, operating income and net income by quarter for each of the past two fiscal years are included in Note 19 Quarterly Financial Summary of the notes to our consolidated financial statements.

BUSINESS AND OPERATING STRATEGY

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

Our strategic plan is aimed at addressing near-term demands for education with a career focus, while ensuring we continue to build the capabilities necessary to deliver sustainable long-term growth for our organization and its institutions. We are focused on gaining efficiencies and continuously improving operations that support the three key areas of focus Enroll, Educate and Place for our organization overall and our individual campuses across the United States.

Enroll

Promoting interest with prospective students and building excitement about our schools and a career path that they can follow is key to the future success of our institutions. We continue to refine and reinvent the ways in which we identify, attract and enroll students. We have begun using enhanced new student orientation courses, which are conducted online for both students planning to take courses online, as well as those enrolling at ground campuses. The online orientation courses, which include our innovative intellipath adaptive learning platform, aim to improve our incoming students experiences as they adjust to higher education, giving them resources and offering tips to help them hit the ground running so they have the right tools and are confident they can succeed. By offering a more enhanced and engaging orientation, this new approach offers students a better opportunity to become acclimated with their new school and determine whether it s the right fit for them. This is in keeping with our desire to make sure students are confident they are making the right decision.

Educate

The importance of quality education at our institutions cannot be overstated. The quality of the education we provide and the manner in which we provide it can directly lead to better student outcomes. We will offer new

Table of Contents

programs at institutions and particular campuses as there is both student demand for the education, as well as workplace demand for graduates in that field of study. Known as an innovator in online education, we will continue to build upon that history and continue developing new education technologies that enhance the learning experience for students. We believe our intellipath adaptive learning platform provides our organization and its institutions a strategic advantage by providing a more customized student experience and we will continue to expand its use as a key differentiator.

Place

Our institutions tend to serve career-focused students who are driven to attain education to improve their personal and professional standing. At our nationally-accredited schools in particular, this means providing robust Career Services support. We have enhanced job placement processes and procedures over the past two years, which has been demonstrated through increased placement rates reported to our accreditors. We intend to continue improving our job placement outcomes, through student resources and proper program mixes that meet the current and future demands of employers.

Strong performance in these three key phases of the student lifecycle we believe inherently leads to improved results for the organization as a whole. As we evaluate our operations and consider ways in which we can invest our financial and personnel resources, we will continue to determine what impact that may have against these imperatives.

Student Recruitment and Marketing, Admissions, Student Retention and Student Employment and Graduation

Student Recruitment and Marketing

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

We seek to increase enrollment at each of our schools through marketing programs designed to differentiate our brands in the marketplace and maximize each campus opportunity to serve a targeted section of the potential student population. The geographic scope of the marketing programs as well as the media deployed varies by school and location.

Admissions

CEC has historically served a diverse student population. Our students represent a broad range of educational and employment experiences, contributing to their college-level readiness. Each of our campuses has an admissions office whose staff is responsible for interacting with individuals interested in enrolling at the campuses. Admissions representatives serve as prospective students primary contacts, providing information to help them make informed enrollment decisions and assisting them with the completion of the enrollment process. As of December 31, 2013, our schools employed approximately 1,300 admissions representatives serving both current and potential students.

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

Table of Contents

In 2012, CEC schools introduced a 21 day readiness opportunity in order to provide new students with an opportunity to test their academic readiness and explore the academic programs and student services available at our institutions prior to making a financial commitment to the institution. However, a significant number of students who cancelled their enrollment during the extended 21 day period were individuals who simply failed to participate in any required activities, including meeting with academic advisors or student support personnel. As a result, the 21 day readiness opportunity design did not fully meet our intended goal of engaging students in informed decision making, but instead served as a disincentive to students to fully commit to their personal academic success. For that reason, CEC is transitioning to an approach that requires the student to engage actively in preparatory activities, including adaptive learning modules that both test a student s fundamental skills and provide self-paced instruction to fill skills gaps that are revealed, which we believe will better prepare a student to make an informed decision about pursuing their education.

Starting in early 2014, the 21 day readiness opportunity will be phased out by an expanded and structured orientation program. The new orientation program will actively engage students in an exploration of our academic and support services. The program will utilize adaptive learning to both assess a student s competencies, and where needed, enable the student to develop the academic and study skills required for success. The orientation program is free of charge to students, and will be offered for completion prior to or in parallel with the first week of enrollment in the first course. Students will have the opportunity to cancel their enrollment at any time during the orientation without incurring a financial obligation and they will also have the opportunity to withdraw from school without taking on debt during the regular drop/add period.

Student Retention

CEC continually emphasizes the importance of student retention at each of our schools. As is the case at any postsecondary educational institution, a portion of our students fail to complete their academic programs for a variety of academic, financial or personal reasons. We seek to improve retention rates by building a strong connection between our faculty and students and promoting instructional innovation. These efforts, as well as our implementation of adaptive learning, are designed to assist our students to remain in school and succeed. Our schools consolidated retention rates for the years ended December 31, 2013, 2012 and 2011 were approximately 63%, 62% and 60%, respectively. These rates were determined in accordance with the standards set forth by the Accrediting Council for Independent Colleges and Schools (ACICS) to provide a common formula for all our schools regardless of their accreditor.

In January 2014 AIU implemented a new grant program the Milestone Grant program that rewards students for completing the first academic milestone of finishing the first quarter and enrolling in the second. The first year of college is often the most difficult time for students to adjust to the demands of postsecondary education and remain focused on the goals that brought them to college in the first place. In fact, according to the American Institutes for Research, only 60% of students who enroll in college complete the first year and continue into the second. AIU will reward students with a one-time grant equal to the cost of the student s first class if he or she completes the first quarter and begins classes in the second quarter.

Student Employment and Graduation

The employment of our students in their field of study is an important element of our educational mission. Each of our campuses has a career services department whose primary responsibility is to prepare students to conduct a successful job search. In addition, our career services staff assists students in identifying part-time employment, including participation in internship programs, while our students pursue their education. Part-time employment opportunities are an important part of our overall success strategy, as these opportunities may lead to permanent positions upon graduation.

As of December 31, 2013, we employed approximately 260 individuals in the career services departments of our campuses. In addition to our career services personnel, we employ externship coordinators at certain campuses to assist students in obtaining externships that prepare them to compete in the employment market.

Table of Contents

Student Enrollment

Our total student enrollment for our continuing operations as of December 31, 2013 and 2012 was approximately 53,700 students and 64,300 students, respectively. Included in total student enrollment for our continuing operations as of December 31, 2013 and 2012 were approximately 29,700 students and 32,000 students, respectively, enrolled in our fully-online academic programs. Related student enrollment demographic information as of December 31, 2013 and 2012 was as follows:

Student Enrollment by Age Group

	As a Percentage of Total Student Enrollment as of December 31,	
	2013	**2012**
Under 21	10%	10%
21 to 30	40%	41%
Over 30	50%	49%

Student Enrollment by Core Curricula

	As a Percentage of Total Student Enrollment as of December 31,	
	2013	**2012**
Business Studies	47%	44%
Health Education	19%	22%
Visual Communications and Design Technologies	9%	12%
Culinary Arts	15%	13%
Information Technology	10%	9%

Student Enrollment by Degree Granting Program

	As a Percentage of Total Student Enrollment as of December 31,	
	2013	**2012**
Doctoral, Master s, Bachelor s Degree	58%	54%
Associate Degree	29%	22%
Certificate	13%	24%

Student Academics

We believe learning outcomes and career readiness are attained by our students as a result of the quality learning experience they are provided. Those learning experiences are facilitated by career-oriented curriculum, engaging instructional delivery, qualified faculty and accessible student support services. As a result, approximately 630,000 students have graduated from CEC schools as of December 31, 2013.

Curriculum

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

9

Table of Contents

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

Instructional Delivery

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

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

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

CEC continues to invest in its methods for delivering online education. CEC has, across multiple of its institutions, implemented the use of sophisticated adaptive learning technologies. Our roll-out of these technological tools is coupled with extensive faculty training. Continuous assessment facilitates the development of individualized, dynamic learning maps that both illustrate where student mastery has been achieved and where additional work is needed. Both the student and the instructor can see in real time where learning has taken place and where effort still needs to be applied. We have implemented this technology within University schools and have begun to implement it within our Career Schools.

Library Services

Ground and online students have access to the Cybrary, a collection of electronic resources that has been developed to support the curriculum offered by each of the CEC institutions.

All ground and online students have access to a team of reference librarians 80 hours each week. Students may request assistance through instant messaging, telephone or email. The online library resources and services exist to extend and enhance those resources and services that are provided on physical campuses as well as to support fully online students.

Faculty

CEC employs more than 3,000 credentialed, geographically disbursed, full-time and adjunct faculty who facilitate learning in our classrooms, kitchens, labs, studios and virtual classrooms. Our faculty are hired,

Table of Contents

assigned, developed and evaluated in compliance with current accepted higher education practice and in compliance with state, institutional accreditation and programmatic accreditation standards. Generally, all schools require the instructor to have a degree at least one level higher than the level of course being taught (with the exception of faculty in our doctoral programs) plus teaching and/or industry experience. General Education faculty members must possess at least a master s degree. The average tenure of a CEC faculty member is greater than four years. The longevity of our instructors is a testament to the focus we place on student learning and the consistent quality we strive for in our classrooms. Given our significant investment in faculty selection and development, retention and development of this pivotal group of employees is extremely important to the organization, and to our students.

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

Faculty Competencies

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

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

Faculty Development

Instructors are required to participate in faculty development activities each year as part of the continuous improvement process. The objective of faculty development is to increase proficiency in each of the instructor competencies. Performance strength and opportunities guide the

selection of faculty development activities. Campuses typically provide locally developed in-service professional development activities for their own faculty. In addition, CEC has contracted with MaxKnowledge to provide online and ground instructor access to online faculty modules located within the Center for Excellence in Education (CEE). CEE provides faculty with interactive content, available in an asynchronous format, in areas such as teaching methodology, instructional practice, classroom management, outcomes assessment and student retention.

The Educator of the Year program celebrated its 13th year in 2013. The Educator of the Year program is designed to recognize teaching as the essence of CEC s mission and celebrates the impact that CEC faculty have had upon their students through innovation and accomplishment in four specific categories:

instruction;

Table of Contents

- student support;
- academic leadership; and
- community service or partnership.

A rigorous internal and external review process culminates in the identification of an Educator of the Year in each of the four categories. CEC s recognition of outstanding faculty acknowledges our belief that the quality of the interaction between the instructor and the student is central to providing our student with a high quality learning experience.

Employees

As of December 31, 2013, we had a total of 9,075 employees, including 1,153 students employed on a part-time basis at certain of our schools, as follows:

	Full-time Non-student Employees	Part-time Non-student Employees	Part-time Student Employees	Full-time Faculty	Part-time Faculty	Total
CTU	759	11	63	26	982	1,841
AIU	798	10	162	63	458	1,491
Total University Schools	1,557	21	225	89	1,440	3,332
Health Education	534	25	290	151	447	1,447
Culinary Arts	484	1	246	267	157	1,155
Design & Technology	316	23	291	80	456	1,166
Total Career Schools	1,334	49	827	498	1,060	3,768
Corporate	1,177	35	2			1,214
Subtotal	4,068	105	1,054	587	2,500	8,314
Transitional Schools	381	28	99	105	148	761
Total employees	**4,449**	**133**	**1,153**	**692**	**2,648**	**9,075**

ACCREDITATION AND JURSIDICTIONAL AUTHORIZATIONS

Institutional Accreditation

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

Pursuant to provisions of the HEA, ED relies on accrediting agencies to determine whether institutions educational programs qualify the institutions to participate in Title IV Programs. The HEA and its implementing regulations specify certain standards that all recognized accrediting agencies must adopt in connection with their review of postsecondary institutions. All of our campuses are accredited by accrediting agencies recognized by ED.

12

Table of Contents

A listing of our accredited schools, including all main and additional (branch) campus locations for regulatory purposes and relevant accreditation information is provided in the following table:

ACCREDITATION TABLE

School, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Accreditor[1]	Year of Accreditation Expiration[2]
American InterContinental University		
Schaumburg, IL (Online) *(Atlanta, GA; Weston, FL; Houston, TX)*	HLC	2014
Briarcliffe College, Inc.		
Bethpage, NY *(Patchogue, NY)*	MSCHE	2022
Brooks Institute		
Ventura, CA *(Santa Barbara, CA)*	ACICS	2016
Brown College		
Mendota Heights, MN (*Brooklyn Center, MN*)	ACICS	2014
Colorado Technical University		
Colorado Springs, CO *(Denver, CO; North Kansas City, MO; Pueblo, CO; Sioux Falls, SD; Online*)	HLC	2022
Harrington College of Design		
Chicago, IL	HLC	2015
International Academy of Design & Technology		
Chicago, IL (*Troy, MI and Nashville, TN; Collins College, Phoenix, AZ)*	ACICS	2014
Tampa, FL *(Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; and Online; Le Cordon Bleu College of Culinary Arts, Orlando, FL; Sanford-Brown College, Portland, OR[3])*	ACICS	2014
Le Cordon Bleu College of Culinary Arts		
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL)*	ACICS	2017
Pasadena, CA (*Sanford-Brown College, Dearborn, MI[3]; Grand Rapids, MI[3]; Hillside, IL; Indianapolis, IN[3]; Phoenix, AZ; Tinley Park, IL[3]; and Skokie, IL; Sanford-Brown Institute, Orlando, FL)*	ACICS	2017
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	ACICS	2014
San Francisco, CA	ACCSC/ACICS	2015
Scottsdale, AZ (includes Online) *(Miramar, FL[4]; Cambridge, MA; Las Vegas, NV)*	ACCSC/	2015
	ACICS	2014
Le Cordon Bleu College of Culinary Arts in Chicago		
Chicago, IL	HLC	2018
Missouri College		
Brentwood, MO	ACICS	2014
Sanford-Brown College		
Atlanta, GA *(Austin, TX; Columbus, OH; Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Ft. Lauderdale, FL; New York, NY; Trevose, PA)*	ACICS	2014
Boston, MA *(Sanford-Brown College, Inc., a private two-year college)*	ACICS	2014
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	ACICS	2017
Farmington, CT	ACICS	2014
Fenton, MO (*St. Peters, MO)*	ACICS	2017
McLean, VA	ACICS	2015

Sanford-Brown Institute		
Jacksonville, FL *(Iselin, NJ and Tampa, FL)*	ACICS	2015
Pittsburgh, PA *(Wilkins Township, PA)*	ACICS	2014
White Plains, NY	ACICS	2017
SBI Campus an Affiliate of Sanford-Brown		
Melville, NY (*Sanford-Brown Institute, Cranston, RI*[(3)])	ACICS	2014

(1) Below is a key to the accreditation abbreviations used in the above table:
   a. ACCSC Accrediting Commission of Career Schools and Colleges
   b. ACICS Accrediting Council for Independent Colleges and Schools
   c. MSCHE Middle States Association of Colleges and Schools, Commission on Higher Education
   d. HLC North Central Association of Colleges and Schools, Higher Learning Commission

(2) Status as of February 14, 2014. Institutions seek renewal of accreditation during the year noted.

(3) These campuses have completed their teach-out as of the filing of this annual report on Form 10-K with U.S. Securities and Exchange Commission (SEC).

(4) ACCSC accreditation for the Miramar branch campus expires in 2016.

Programmatic Accreditation

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

Programmatic accreditation has been granted by the following accrediting agencies with respect to the following individual programs taught at certain of our campuses:

PROGRAMMATIC ACCREDITATION TABLE[(1)]

Accreditor	Campus	Program Accredited
Accreditation Council for Business Schools and Programs	American InterContinental University: Atlanta, Houston, Online and South Florida; Colorado Technical University: Colorado Springs, Denver, Pueblo and Sioux Falls	Business programs
Accreditation Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Engineering
Accrediting Bureau of Health Education Schools	Sanford-Brown: Ft. Lauderdale, Houston, Houston North Loop, Iselin, New York, Skokie and St. Peters	Surgical technology
American Culinary Federation Education Institute	Le Cordon Bleu College of Culinary Arts: Atlanta, Austin, Chicago, Las Vegas, Los Angeles, Miami, Minneapolis/St. Paul, Orlando, Portland, San Francisco and Scottsdale	Culinary arts
American Culinary Federation Education Institute	Le Cordon Bleu College of Culinary Arts: Atlanta, Chicago, Las Vegas, Los Angeles, Minneapolis/St. Paul, Orlando, Portland, Scottsdale, Seattle and St. Louis	Pastry and baking

Table of Contents

Accreditor	Campus	Program Accredited
American Dental Association Commission on Dental Accreditation	Missouri College	Dental assisting
American Dental Association Commission on Dental Accreditation	Briarcliffe College; Missouri College; Sanford-Brown: Dallas, Ft. Lauderdale and Jacksonville	Dental hygiene
American Society of Health Systems Pharmacists	Sanford-Brown: Cleveland, Dallas, Ft. Lauderdale, Garden City, Houston, Iselin, Jacksonville, New York, Phoenix and Tampa	Pharmacy technician
American Veterinary Medical Association	Sanford-Brown: Austin, Ft. Lauderdale, Grand Rapids, Jacksonville, Pittsburgh, Portland, St. Peters and Tysons Corner	Veterinary technology
CAAHEP-Medical Assisting Education Review Board	Colorado Technical University, Sioux Falls [(2)]	Medical assistant
CAAHEP-Accreditation Review Committee on Education in Surgical Technology and Surgical Assisting	Colorado Technical University: Denver and Pueblo; Sanford-Brown: Houston, Iselin and Wilkins Township	Surgical technology
CAAHEP Committee on Accreditation of Educational Programs for the Emergency Medical Services Professions	Sanford-Brown, Fenton	Emergency medical technician
CAAHEP Joint Review Committee on Education in Cardiovascular Technology	Sanford-Brown: Atlanta, Boston, Cleveland, Columbus, Dallas, Dearborn, Ft. Lauderdale, Hillside, Jacksonville, Phoenix and San Antonio	Cardiovascular sonography
CAAHEP-Joint Review Committee on Education in Diagnostic Medical Sonography	Sanford-Brown: Atlanta, Cleveland, Dallas, Dearborn, Fenton, Ft. Lauderdale, Garden City, Houston, Iselin, New York, Phoenix, Pittsburgh and White Plains	Diagnostic medical sonography
CAEP (TEAC)- Council for the Accreditation of Educator Preparation	American InterContinental University Online	Master of Education
Committee on Accreditation for Respiratory Care	Sanford-Brown: Fenton and Wilkins Township	Respiratory therapy

Table of Contents

Accreditor	Campus	Program Accredited
Council for Interior Design Accreditation	American InterContinental University, Atlanta; Harrington College of Design; International Academy of Design & Technology: Detroit, Nashville and Tampa	Interior design
Joint Review Commission on Education in Radiologic Technology	Sanford-Brown: Cleveland, Fenton, Houston North Loop and Pittsburgh(3)	Radiologic technology
National Accrediting Agency for Clinical Laboratory Sciences	Sanford-Brown, Houston	Medical laboratory technician
Project Management Institute Global Accreditation Center	Colorado Technical University: Colorado Springs, Pueblo, Denver and Sioux Falls	Project Management

(1) Status as of February 14, 2014.
(2) On February 11, 2014, the Medical Assisting Education Review Board informed CTU Sioux Falls that it will recommend to CAAHEP that the program receive probationary accreditation.
(3) The Radiographer program at this campus is on probationary status.

Compliance Monitoring by Accrediting Agencies

Accrediting agencies monitor many aspects of an institution s operations in order to ensure that the education or training offered is of sufficient quality to achieve, for the duration of the accreditation period, the stated objectives of the education or training offered. In addition to periodic accreditation reviews, institutions undergoing substantive changes, including a change of ownership, may be required to be reviewed by their accrediting agency. Accrediting agencies also monitor institutions compliance during the term of their accreditation, including through required annual self-reporting by an institution and periodic site visits by representatives of the accrediting agency. If an accrediting agency believes that an institution may be out of compliance with accrediting standards, it may place the institution or particular programs on probation or a similar warning status or direct the institution to show cause why its accreditation should not be revoked. An accrediting agency may also require the institution to provide it with supplemental reports in order for the agency to monitor one or more specific areas of the institution s performance, which is commonly referred to as being on reporting status. Failure to demonstrate compliance with accrediting standards in any of these instances could result in loss of accreditation. Being on probation, show cause, or reporting status may cause an accreditor to deny an institution permission, or otherwise delay approval, to open and commence instruction at new locations or to add new programs.

Employment Placement Rate Standards and Other Student Achievement Outcomes

One aspect of an institution s operations monitored by accrediting agencies is student achievement, including employment placement rates of our graduates. Our national accreditors, some programmatic accreditors and some state licensing bodies require our campuses and/or programs to achieve minimum placement rates within specific time periods after students have graduated. Retention rates are another measure of student outcomes monitored by some of these bodies. Many agencies have increased standards for these outcome measurements over recent years. For example, ACICS (which accredits 68 of our campuses) transitioned from institutional placement rates to institutional and program-level placement rates for the 2011- 2012 reporting year. In addition, it has adjusted its placement rate standards for each of the 2011, 2012 and 2013 ACICS reporting years. For the period from July 1, 2012 through June 30, 2013 (the ACICS 2013 reporting year), the benchmark

Table of Contents

placement rate standard for programs and campuses was 70%, up from 64% for the 2012 reporting year. ACICS continued its tiered standard for the 2013 ACICS reporting year, but increased the minimum compliance standard from 47% to 60% and, as stated earlier, increased the benchmark standard from 60% to 70%.

ACICS-accredited institutions with placement rates less than 70% are subject to improvement plans, reporting requirements and potentially additional sanctions (for programs and institutions that fail to meet the 60% minimum compliance standard) intended to improve placement rates. For the 2013 reporting year, ACICS added to its annual student outcomes reporting process an opportunity for institutions meeting certain requirements to request a waiver from accreditation standards. For example, if more than 30% of a program s graduates completed their program within six months of the end of the reporting period, an institution may request a mitigating circumstances waiver of accreditation standards and, if granted, is provided an additional period of time to report outcomes for that reporting year cohort. In addition, ACICS modified its definition of a placement in January 2013 to take into account the expansion of job opportunities available to students who graduate from career colleges, as well as to take into account the fact that many adult learners pursue a credential to improve their performance in their current job or to prepare for future career advancement, rather than to begin a new career or start a new job immediately upon graduation. The data reported for the 2013 reporting period include placements that meet the criteria of this modified definition.

ACICS retention rate standards for institutions are similarly applied and also increased for each of the 2011, 2012 and 2013 reporting years. For the 2013 reporting year, the minimum compliance standard for retention was 60% and the benchmark rate was 70%, an increase from the 2012 reporting year compliance and benchmark rates of 52% and 67%, respectively. In 2013, ACICS created a process by which institutions may request a waiver of accreditation standards if they fail to meet the retention rate benchmark. For example, if the students who withdrew before June 30th and returned to the institution or program by November 1st would have put the institution or program at or above the compliance threshold, then the institution may apply for a waiver. Similarly, if 50% or more of an institution s students exhibit three or more of the Department of Education higher education risk factors (delayed enrollment, part-time status, working full-time, single parent, financially independent, has dependents or does not have a GED or high school diploma), the institution or program qualifies for a waiver of accreditation standards for retention rates.

On November 1, 2013, 15 of our 38 ACICS-accredited campuses that are not in teach-out (including satellite campuses that separately report to ACICS) reported institutional placement or retention rates below the ACICS benchmark standards of 70% for placement or 70% for retention for the ACICS 2013 reporting year, including three campuses that reported placement rates below the minimum compliance standard. These fifteen campuses also reported at least one rate below the applicable benchmark standard for the ACICS 2012 reporting year. We anticipate these institutions will remain subject to increased levels of accreditation oversight. This oversight includes, depending on the extent to which each campus fell below the ACICS benchmark standards, more detailed or frequent reporting requirements, the submission of an improvement plan, attendance at a workshop, participation in a consultation or additional requirements for new program and location approvals. Because this is the first year in which compliance levels for placement and retention were set at 60%, it is unclear what additional sanctions, if any, might be applied to institutions or programs that failed to meet the minimum compliance standard.

ACICS began evaluating placement and retention rates at the program level and applying associated remedial actions in 2012 using a tiered rate similar to that developed for institutional retention and placement rates. Approximately half of the programs at our ACICS-accredited campuses with at least ten students and graduates will be required to prepare a program improvement plan due to reported placement or retention rates for the ACICS 2013 reporting year that failed to meet the benchmark standard. This was also the case for the ACICS 2012 reporting year.

At the beginning of 2013, CEC owned nine institutions that were accredited by ACCSC as well as ACICS. Because of the complexities of dual accreditation (each accreditor has unique standards that may be in conflict with each other), CEC made the decision to voluntarily relinquish ACCSC accreditation at each of our Brown

Table of Contents

College campuses as well as at our Sanford-Brown campuses in Pittsburgh and Wilkins Township (both in teach-out). Each of those institutions is accredited by ACICS, which is the accreditor recognized by ED as the institutions primary accreditor for Title IV Program purposes. In November 2013, our five campuses currently accredited by ACCSC filed annual reports with ACCSC for the 2013 reporting year, and 17 of the 38 programs reported for these campuses fell below the ACCSC benchmark for either placement rate or graduation rate. We therefore anticipate that ACCSC will require these institutions to provide ACCSC with improvement plans and to provide interim reports regarding the success of those plans. These five campuses were also subject to additional reporting requirements relating to placement and graduation rates and other student achievement outcomes in 2013.

We continue to remain focused on improving the placement of our graduates using the tools and outreach resources made available to career services advisors. Through increased interactions with local businesses, our campuses have enhanced their efforts to identify job opportunities and forge partnerships that improve employment outcomes for our students; however, the national unemployment trend and challenging local employment environment remains a concern. To the extent that we cannot place a sufficient percentage of students in the future to meet various requirements, including our institutional and programmatic accreditors minimum compliance standards, we may take further measures, including the teach out of programs.

State Authorization

State licensing agencies are responsible for the oversight of educational institutions, and continued approval by such agencies is necessary for an institution to operate and grant degrees, diplomas, or certificates to its students. Moreover, under the HEA, approval by such agencies is necessary to maintain eligibility to participate in Title IV Programs. As a result, we are subject to extensive regulation in each state in which our schools are located, and in certain other states in which our schools operate or recruit students. Currently, each of our campuses is authorized by the states in which it is located.

The level of regulatory oversight varies substantially from state to state. In certain states in which we operate, our campuses are subject to licensure by an agency that regulates proprietary institutions and also by a separate higher education agency. State laws establish standards for, among other things, student instruction, qualifications of faculty, location and nature of facilities, and financial policies. State laws and regulations may limit our campuses ability to operate or to award degrees or diplomas or offer new degree programs.

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to, state authorization. The October 29, 2010 regulations require, among other things, that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. In addition, the regulations included certain mandates for states to modify their licensure requirements for online institutions. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the October 29, 2010 regulations requiring proof of state approval for online education programs. On June 12, 2012, the United States Court of Appeals for the District of Columbia Circuit affirmed this portion of the District Court decision related to these state authorization requirements for distance education.

With state reauthorization already slated for negotiated rulemaking in 2014, it is possible that ED may attempt to reinstate their overturned regulation or a similar regulation. Our schools offering distance learning have submitted additional applications for licensures or exemptions for their distance learning programs and have received approval from a majority of those states. Some of our schools have elected to discontinue enrollment of students from certain states or in certain programs in lieu of obtaining licensure. Because many other institutions have submitted similar applications, turnaround times with some agencies have been protracted. State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear, and the interpretation of such regulations is generally left to the discretion of state employees or agents. In response to the proposed ED rules, certain states that did not regulate delivery of online courses and programs

have enacted legislation or issued regulations that specifically address online educational programs, such as those offered by our schools, and may enact or issue regulations impacting the availability of exemptions from licensure in certain states or otherwise affect our schools operations.

STUDENT FINANCIAL AID AND RELATED FEDERAL REGULATION

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

Nature of Federal Support for Postsecondary Education in the United States

The U.S. government provides a substantial portion of its support for postsecondary education in the form of Title IV Program grants, loans and work-study programs to students who can use those funds to finance certain education related expenses at any institution that has been approved to participate by ED. These federal programs are authorized by the HEA. While most students are eligible for a Title IV loan, more generally, financial aid administered under Title IV is awarded on the basis of financial need, which is generally defined under the HEA as the difference between the costs associated with attending an institution and the amount a student s family can reasonably be expected to contribute based on a federally determined formula. Among other things, recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study.

Students at our schools may receive grants, loans and work-study opportunities to fund their education under the Title IV Programs described in the sections below, although not all of our schools participate in each of these programs. In addition, some students at our schools receive education related benefits pursuant to certain programs for veterans and military personnel, the most significant of which are described further below.

Federal Student and Parent Loans

ED s major form of aid includes loans to students and parents through the William D. Ford Federal Direct Loan (Direct Loan) Program. Direct Loans are loans made directly by the U.S. Government to students or their parents. The Direct Loan program offers Federal Direct Stafford, Federal Direct PLUS (which provides loans to parents of dependent students and to graduate or professional students, known as Parent PLUS and Grad PLUS), and Federal Direct Consolidation Loans. Prior to July 1, 2010, students attending CEC institutions utilized loans made under the Federal Family Education Loan Program (FFELP) in addition to Direct Loans. Under the Health Care and Education Reconciliation Act of 2010, new FFELP loans were no longer originated as of July 1, 2010. The law provided that after June 30, 2010 all federal student and parent loans may only be made through the Direct Loan program.

Direct Loans are loans made to our students directly from the federal government. Students who have demonstrated financial need may be eligible to receive a Direct Subsidized Loan, with ED paying the interest on this loan while the student is enrolled at least half-time in school. Students who do not demonstrate financial need may be eligible to receive a Direct Unsubsidized Loan. As part of the Budget Control Act of 2011, beginning July 1, 2012, graduate/professional students are no longer eligible for Direct Subsidized Loans and may only receive Direct Unsubsidized Loans. With Direct Unsubsidized Loans the student is responsible for the interest while in school and after leaving school, although actual interest payments generally may be deferred by the student until after he or she has left school. Students who are eligible for a Direct Subsidized Loan may also be eligible to receive a Direct Unsubsidized Loan.

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

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

The Federal Perkins Loan Program (Perkins Loans) is made from a revolving institutional Federal Perkins Fund account. The federal and institutional percentages of that account were determined by legislation in place at the time the institution received federal allocations. In 1993-94 and succeeding years, the educational institution s contribution was at least one-third of the Federal Capital Contribution from ED. Each institution is responsible for award determination, disbursements, collections and servicing of the Federal Perkins Loans. Currently, only CTU participates in the Federal Perkins Loan program.

Federal Pell Grant and Federal Supplemental Education Opportunity Grant

Title IV Program grants are generally made to our students under the Federal Pell Grant (Pell Grant) program and the Federal Supplemental Educational Opportunity Grant (FSEOG) program. The 2013-14 maximum annual Pell Grant is $5,645. The FSEOG program awards are designed to supplement Pell Grants up to a maximum amount of $4,000 per award year for the neediest students. Our institutions are required to provide matching funding for FSEOG awards that represent not less than 25% of the total FSEOG award to be received by eligible students. The matching may be accomplished through institutional, private and/or state funds.

Federal Work-Study (FWS) Program

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

Veteran s Benefits Programs

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

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

Table of Contents

On January 4, 2011, President Obama signed the Post-9/11 Veterans Educational Assistance Improvements Act of 2010 (Improvements Act) which amends the Post-9/11 GI Bill in several pertinent respects. The Improvements Act alters the way benefits related to tuition and fees are calculated. For nonpublic U.S. institutions, the Improvements Act bases the benefits related to tuition and fees on the net cost to the student (after accounting for state and federal grant aid, scholarships, institutional aid, fee waivers, and similar assistance) rather than the charges established by the institution, and it replaces the state-dependent benefit cap with a single national cap which is adjusted annually and as of August 1, 2013 is $19,198. In addition, veterans pursuing a program of education solely through distance learning on a more than half-time basis are eligible to receive up to 50% of the national average of the basic housing allowance available to service members who are at military pay grade E-5 and have dependents. Most Improvements Act changes took effect on August 1 or October 1, 2011, though changes to rules regarding eligibility for benefits were effective immediately or retroactively to the effective date of the Post-9/11 GI Bill. The Improvements Act did not change the Post-9/11 GI Bill s provision that allows veterans to receive up to $1,000 per academic year for books, supplies, equipment, and other education costs. In March 2012, the Department of Veteran Affairs changed the Yellow Ribbon Agreement to an open ended agreement.

U.S. Military Tuition Assistance

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

In 2010, both the U.S. Congress and DoD increased their focus on DoD tuition assistance that is used for distance education and programs at proprietary institutions. The DoD Voluntary Education Partnership Memorandum of Understanding (MOU) was established as part of the revised DoD Instruction (DoDI) 1322.25, Voluntary Education Programs dated March 15, 2011. The MOU increases oversight of educational programs offered to active duty service members and conveys the commitments and agreements between the educational institution and DoD prior to accepting funds under the tuition assistance program. For example, the MOU requires an institution to agree to support DoD regulatory guidance, adhere to a bill of rights that is specified in the regulations, and participate in the proposed Military Voluntary Education Review program. Under the MOU, institutions must also agree to adhere to the principles and criteria established by the Service Members Opportunity Colleges Degree Network System regarding the transferability of credit and the awarding of credit for military training and experience. Institutions were required to sign the MOU by March 30, 2012. After March 1, 2013 schools without a signed DoD MOU cannot enroll service members under the tuition assistance program until they have signed the MOU. Our institutions utilizing tuition assistance have signed DoD s standard MOU.

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

2012 Executive Order Regarding Military and Veterans Education Benefits

On April 27, 2012, President Obama issued an executive order regarding the establishment of Principles of Excellence for educational institutions receiving funding from federal military and veterans educational benefits programs, including those provided by the Post-9/11 GI Bill and Uniform Tuition Assistance Program of the DoD. The executive order requires DoD, the Department of Veterans Affairs and ED to establish and implement Principles of Excellence to apply to educational institutions receiving such funding. The goals of the Principles are broadly stated in the order and relate to disclosures of costs and amounts of costs covered by federal educational benefits, marketing standards, state authorization, accreditation approvals, standard institutional refund policies, educational plans and academic and financial advising. Various implementation mechanisms are

included, along with the development and implementation of the VA Shopping Sheet, a standardized cost form with Federal aid information. These Principles could increase the cost of delivering educational services to our military and veteran students.

Alternative Student Financial Aid Sources

A financial institution providing a non-recourse loan assumes 100% of the credit risk on the loan. The student, or the student and a co-borrower, must meet the credit criteria established by the financial institution to receive these loans. Each financial institution establishes its own credit criteria and loan limits. Students and co-borrowers generally can borrow an amount equal to the student s cost of attendance less all other financial aid received. Currently, with the exception of a few regional markets, non-recourse loans are not available to students attending our institutions. In addition, CEC does not participate in any recourse loan programs. In November of 2012, Sallie Mae discontinued offering new non-recourse private student loans to students attending our schools. Sallie Mae has committed, however, to providing access to private loans for students actively attending such that they could continue to receive funding through the remainder of their program. Approximately 0.4% of our 2013 cash receipts came from private lending sources. We anticipate that no more than 0.2% of our 2014 cash receipts will come from these sources.

Due to tightening lending standards, in 2008 we began to offer funding alternatives for eligible students in place of a recourse program that had previously been provided by Sallie Mae. We decided to provide extended payment plans directly to certain students to ensure that they could finish their current educational programs with us and to allow new students the opportunity to attend our schools. In early 2011, we discontinued our internal extended financing program. As of 12/31/2013, we have approximately $2.3 million outstanding related to our extended payment plan programs as reflected in our current and non-current student receivables, net of allowance for doubtful accounts and deferred tuition revenue, on our consolidated balance sheet.

Increased Scrutiny of the Private, Postsecondary Education Sector

Over the past several years, Congress, ED, states, accrediting agencies and the media have increased their scrutiny on the private, postsecondary education sector. This includes a focus on issues surrounding student debt.

Various Congressional hearings and roundtable discussions have been held, beginning in June 2010, by the U.S. Senate Committee on Health, Education, Labor and Pensions (HELP Committee) and other Congressional members and committees regarding various aspects of the education industry. In July 2012, the HELP Committee released a report analyzing information requested from 30 companies operating proprietary schools (including us and other publicly traded companies providing proprietary postsecondary education services). The report contended that these institutions have a high cost of attendance, engage in aggressive and deceptive recruiting, have high drop-out rates, provide insufficient student support services and are responsible for high levels of student debt and loan defaults, among other things, and called for increased disclosure of information about student outcomes at for-profit colleges and universities, as well as prohibiting institutions from using federal financial aid funding to market, advertise and recruit, among other things.

In addition, various members of Congress continue to propose legislation that if adopted would affect our business. All of these activities may lead to adverse legislation, additional ED, state or accrediting agency regulations, additional negative media coverage or further federal or other investigations of the private, postsecondary education industry. Any actions that limit our participation in Title IV Programs or the amount of student financial aid for which our students are eligible would negatively impact our business. See Item 1A, Risk Factors Risks Related to the Highly Regulated Field in Which We Operate *Increased scrutiny of the for-profit postsecondary education sector by Congress, the President and various state and federal governmental agencies have resulted in adverse publicity and may lead to increased regulatory burdens and costs.*

Table of Contents

Legislative Action and Recent ED Regulatory Initiatives

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

The Higher Education Opportunity Act (HEOA) was the most recent reauthorization of the HEA and was signed into law on August 14, 2008. It was immediately effective for many items with others effective in subsequent years. The HEOA authorized increases in the Federal Pell Grants, changed certain grant eligibility requirements, expanded Stafford Loan deferment options, provided changes to needs analysis, changed treatment of Veterans Administration benefits effective with the 2010-11 award year and revised many of the regulations governing an institution s eligibility to participate in Title IV Programs.

By law, the HEA must be reauthorized by Congress every five years. The last full reauthorization took place in 2008, which means that the next reauthorization was due in 2013. Congress failed to pass an on-time reauthorization bill; therefore an automatic one-year extension to December 2014 is in place. After that, Congress must pass legislation to extend the act until a reauthorization can occur.

Both the U.S. Senate HELP committee and the U.S. House of Representatives Committee on Education and Workforce have begun the foundational work and hearings focusing on various aspects of the HEA reauthorization bill. Increased scrutiny of the private, postsecondary education sector could lead to significant regulatory changes in connection with the upcoming reauthorization of the HEA.

The agencies that regulate our schools, including ED, periodically revise their requirements and modify their interpretations of existing requirements. For example, in March of 2013, ED issued a Dear Colleague Letter pertaining to the implementation of a new requirement for institutions to review attendance and grade records for students who appear to have unusual postsecondary institution enrollment history. Additionally, in May 2013, as a result of a provision included in the Moving Ahead for Progress in the 21st Century Act (P.L. 112-141), ED issued interim final regulations limiting the Direct Subsidized Stafford Loan eligibility. The Act limits the timeframe that a student may borrow to no more than 150% of the published length of their educational program. These new regulations have required us to change certain of our business practices, and incur costs of developing and implementing changes in operations. Additional regulatory initiatives by ED or other agencies that regulate our schools could have similar significant impacts on our business and costs of compliance.

In addition to the regulations, ED routinely issues Dear Colleague Letters to provide sub-regulatory guidance on certain areas of final regulations. The guidance is provided to assist institutions with understanding the regulations in these areas, and does not make any changes to the regulations. ED has issued numerous Dear Colleague Letters to provide further information on other Title IV, HEA provisions including the new 150% subsidized limitation (discussed above). ED created a website specifically dedicated to providing information on the 150% subsidized limitation and can be found at *http://ifap.ed.gov/150PercentDirectSubsidizedLoanLimitInfo/index.html.*

Pending Regulatory Initiatives

In April 2013, ED announced its intention to establish one or more negotiated rulemaking committees to propose additional new regulations under the HEA. ED held four public hearings in May and June 2013, at which interested parties suggested issues that should be considered for action by the negotiating committees. In June, September and November of 2013, ED announced that it would be establishing three new negotiated rulemaking committees: one to address gainful employment in a recognized occupation (See Gainful Employment section below), one to address campus safety and security reporting and disclosure based on the reauthorization of the Violence Against Women Act of 2013, and one to address program integrity and improvement.

On November 1, 2013, final rules addressing student loan issues were released and will take effect July 1, 2014. These final regulations include changes to the Direct Loan program and other rules to make the Title IV

loan programs more consistent. Specifically, these final rules implement changes to the Direct Loan regulations as a result of the Health Care and Education Reconciliation Act of 2010 (Public Law 111-152) which requires all new Stafford loans on or after July 1, 2010 to be from the Direct Loan Program. Conforming changes were made to the FFELP regulations as well as removing FFELP references in the Direct Loan regulations. Finally, these rules also strengthen and clarify provisions of the Federal Perkins, FFEL and Direct Loan Programs related to deferment, forbearance, loan cancelation, rehabilitation of defaulted loans, administrative wage garnishment and satisfactory repayment arrangements. We do not expect these rules to have a material effect on our business.

Gainful Employment

The HEA includes two definitions of an Institution of Higher Education, with the first definition specifying that only non-profit institutions are eligible to participate in all programs defined by the HEA and the second allowing proprietary and other institutions to participate only in Title IV of the HEA. The definition of proprietary schools includes the descriptor that these institutions provide educational programs that lead to gainful employment in a recognized occupation. Historically, neither Congress nor the Department of Education sought to define the term gainful employment in statute or regulation. In the absence of any statutory change, ED sought to define the term for the first time and on October 29, 2010 and June 13, 2011, the Department published final regulations to define the term, gainful employment. However on June 30, 2012 two significant sections of the rule were vacated by the U.S. District Court for the District of Columbia. Only the disclosure requirements created by the new gainful employment regulations remained in place. These rules require proprietary postsecondary institutions to provide prospective students with each eligible program s recognized occupations, cost, completion rate, job placement rate and median loan debt of program completers beginning July 1, 2011. These disclosures have increased our administrative burdens and costs and could impact student enrollment, persistence and retention.

In June 2013, ED announced its intention to form a new negotiated rulemaking committee to again prepare proposed regulations to define gainful employment in a recognized occupation. The committee met three times in 2013 to negotiate the proposed rules. At their final meeting in December 2013, the committee failed to reach consensus on the proposed rules. As a result, ED is free to develop their own regulatory language, within the constraints of the Administrative Procedures Act that requires, among other things, for the regulation to be a natural outgrowth of the notice of proposed rulemaking reviewed by the community at large and contemplated by the negotiated rulemaking panel. A notice of proposed rulemaking is expected to be released in early 2014, with final rules expected no later than November 1, 2014 with changes to be effective on July 1, 2015.

We cannot predict the future content of the gainful employment regulations. To the extent that the new regulations are revised to retain provisions that were proposed during the negotiations, they could adversely affect the eligibility of the programs we offer and our business could be materially and adversely impacted.

Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations

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

Table of Contents

We have several such matters pending against us at one or more of our schools. See Note 13 Commitments and Contingencies of the notes to our consolidated financial statements for further discussion of certain of these matters, including that in December 2011 ED moved all of our institutions from what is called the Advance Method of Payment of Title IV funds to what is called Heightened Cash Monitoring 1, or HCM1, status. Although our prior practices substantially conformed to the requirements of this more restrictive method of drawing down students Title IV Program funds, if ED finds violations of the HEA or related regulations, ED may impose monetary or program level sanctions, or transfer our schools to the reimbursement or Heightened Cash Monitoring 2 (HCM2) methods of payment of Title IV Program funds, which would result in a significant delay in receiving those funds.

The HEA also requires that an institution s administration of Title IV Program funds be audited annually by an independent accounting firm and that the resulting audit report be submitted to ED for review.

90-10 Rule

Under a provision of the HEA commonly referred to as the 90-10 Rule, any of our schools or Office of Postsecondary Education Identifier numbers (OPEIDs) that, on modified cash basis accounting, derives more than 90% of its cash receipts from Title IV sources for a fiscal year will be placed on provisional participation status for its next two fiscal years. If an OPEID does not satisfy the 90-10 Rule for two consecutive fiscal years, it will lose its eligibility to participate in the Title IV Programs for at least two fiscal years. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students. If the OPEID violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility.

Effective July 1, 2008, the annual unsubsidized Stafford loans available for undergraduate students was increased by $2,000. The HEOA provided temporary 90-10 Rule relief from this increase by permitting institutions to count the additional $2,000 in Stafford loans dispersed before July 1, 2011 as revenue not derived from Title IV Programs. The expiration of the temporary relief in the HEOA with respect to unsubsidized Stafford loans as of July 1, 2011 and several other factors have adversely affected our schools 90-10 Rule percentages in 2012 and 2013, including the increase in Title IV Program aid availability, budget-related reductions in state grant and workforce training programs and other alternative funding sources that have historically helped schools in our industry to comply with the 90-10 Rule.

We have implemented various measures intended to reduce the percentage of our institution s cash basis revenue attributable to Title IV Program funds, including emphasizing employer-paid and other direct-pay education programs; the use of externally funded scholarships and grants; increased emphasis on programs supported under the Workforce Investment Act and other employment-based programs administered by ED; counseling students to carefully evaluate the amount of necessary Title IV Program borrowing; and, for certain campuses, increasing the level of accredited non-Title IV programs in our schools.

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

Because of the increases in Title IV Program student loan limits and grants in recent years, we believe that many proprietary institutions are experiencing difficulty with respect to 90-10 Rule compliance. In our view, one potential unintended consequence of this pressure is higher tuition rates. This is because one of the more effective methods of reducing the 90-10 Rule percentage is to increase tuition prices above the applicable

maximums for Title IV Program student loans and grants, requiring students to seek other sources of funding to pay eligible tuition and fees in order to reduce the percentage of revenue from Title IV sources. However, this consequence directly undermines the shared interest in promoting affordable postsecondary education. Although modification of the rule could limit this undesirable impact on tuition, there is no assurance that Congress will address this problem by modifying the rule or will address it in a manner that timely and favorably impacts compliance by our institutions. We have adjusted tuition at several of our campuses and programs that are under pressure to comply with the 90-10 Rule, which could adversely affect our enrollment and our cohort default rates.

For our 2013 fiscal year, as it relates to those OPEIDs that are not in teach-out, our preliminary review results in none of our OPEIDs exceeding the 90% limit. However, on February 11, 2014, we notified ED that our preliminary review identified four of our transitional OPEIDs (institutions that are currently in teach-out), including SBC Farmington, SBC Boston, SBC Tysons Corner, and SBC Fenton (representing five campus locations), that are expected to exceed 90% in 2013. It is our expectation that two of these OPEIDs will complete their teach-out activities in 2014 and the remaining two OPEIDs will complete their teach-out activities in 2015. We anticipate that these four institutions will not exceed 90% for a second year prior to their closure. While ED has broad discretion to impose additional sanctions on institutions that fail the 90-10 Rule limit, there is only limited precedent available to predict what those additional sanctions might be, particularly in the current regulatory environment.

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

Student Loan Default Rates

An institution may lose eligibility to participate in some or all Title IV Programs if the rates at which its former students default on the repayment of their federally-guaranteed or federally-funded student loans exceed specified percentages. This is determined by an institution s cohort default rate which is calculated on an annual basis as a measure of administrative capability. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The applicable cohort default rate for each cohort has been the percentage of the students in the cohort who default on their student loans prior to the end of the following federal fiscal year, which represents a two-year measuring period. The cohort default rates are published by ED approximately 12 months after the end of the measuring period. Thus, in September 2013, ED published the two-year cohort default rates for the 2011 cohort, which measured the percentage of students who first entered into repayment during the federal fiscal year ended September 30, 2011 and defaulted prior to September 30, 2012. The 2011 cohort was the last cohort to be measured under the two-year period. As discussed below, the measurement period for the cohort default rate is transitioning to three years starting with the 2009 cohort. The three-year cohort default rates for the 2009 and 2010 cohorts were also published by ED in September 2012 and 2013, respectively.

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

If an institution s two-year cohort default rate exceeds 25% for three consecutive years or 40% for any given year, it will no longer be eligible to participate in the Direct Loan or Pell Grant programs for the remainder of the federal fiscal year in which ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. In addition, an institution whose cohort default rate equals or exceeds 25% for any one of the three most recent federal fiscal years may be placed on provisional certification status by ED.

Table of Contents

None of the CEC institutions exceeded the 25% threshold for the 2011 official cohort under the final two-year measurement. The consequences applicable to two-year cohort default rates ceased at the end of the 2013 calendar year for the 2011 cohort.

As mentioned above, the cohort default rate requirements were modified by the HEOA enacted in August 2008 to increase by one year the measuring period for each cohort. In September 2013, ED published the official three-year cohort default rates for the 2010 cohort. This was the second year of official rates under the three year measurement period. Beginning with the 2009 cohort, if an institution s three-year cohort default rate exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate. We believe that our current repayment management efforts meet these requirements. One of our institutions, Sanford-Brown College in McLean, VA, had a three-year rate in excess of 30% for the 2009 and 2010 cohorts. During December 2012, we announced that we will be teaching out that campus which is expected to be complete by December 2015. If an institution s three-year cohort default rates for the 2009 and 2010 cohorts exceed 30%, the institution may be subject to provisional certification imposing various additional requirements for participation in Title IV Programs. No other CEC institution has exceeded the 30% threshold for the 2009 or 2010 official cohorts under the three-year measurement.

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

- *Annual test.* If the three-year cohort default rate for any given year exceeds 40%, the institution will cease to be eligible to participate in Title IV Programs; and

- *Three consecutive years test.* If the institution s three-year cohort default rate exceeds 30% (an increase from the 25% threshold that was applicable to the two-year cohort default rates) for three consecutive years, beginning with the 2009 cohort, the institution will cease to be eligible to participate in Title IV Programs.

We have student loan default management initiatives at all of our schools that participate in Title IV Programs aimed at reducing the likelihood of our students failure to repay their loans in a timely manner. These initiatives emphasize the importance of students compliance with loan repayment requirements and provide for extensive loan counseling and proactive communication with students after they cease enrollment.

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

Table of Contents

In September 2013, ED released the second official three-year cohort default rates for the 2010 cohort. A listing of the official 2010, 2009 and trial 2008 three-year cohort default rates, as well as the 2009-2011 two-year cohort default rates, for each of our main and additional (branch) campus locations for regulatory purposes is provided in the table below. The trial 2008 three-year cohort default rates are unofficial, were provided by ED for information only, and no sanctions will result from these rates. Further, because these 2008 rates are unofficial with no consequences, ED did not allow schools to challenge or appeal the rates and the data underlying them. In February 2014, ED released draft three-year cohort default rates for the 2011 cohort. These draft rates are unofficial and no sanctions will result from them, and therefore they are not provided in the table below. Our LCB Austin institution, which includes five Culinary Arts campuses which are not in teach-out, had a draft three-year rate in excess of the applicable standard for the 2011 cohort. Official three-year cohort default rates for the 2011 cohort are expected to be released in September 2014. We will continue to monitor the rates for all of our institutions.

COHORT DEFAULT RATE TABLE

School, Main Campus Location	Cohort Default Rates					
	3-year rate			2-year rate		
(Additional locations as defined by accreditors are in parentheses)	2010	2009	2008 (trial)	2011	2010	2009
American InterContinental University						
Schaumburg, IL (Online) (*Atlanta, GA; Weston, FL; Houston, TX)*	23.2%	27.4%	21.5%	14.8%	14.1%	18.7%
Briarcliffe College						
Bethpage, NY (*Patchogue, NY*)	20.0%	21.5%	20.7%	12.6%	12.8%	14.3%
Brooks Institute						
Ventura, CA *(Santa Barbara, CA)*	11.6%	16.1%	12.2%	7.2%	9.4%	10.6%
Brown College						
Mendota Heights, MN *(Brooklyn Center, MN)*	15.4%	21.4%	12.8%	12.7%	8.5%	12.9%
Colorado Technical University						
Colorado Springs, CO *(Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*)	22.8%	25.0%	23.1%	13.1%	13.2%	16.4%
Harrington College of Design						
Chicago, IL	13.6%	12.2%	12.0%	9.1%	7.7%	8.0%
International Academy of Design & Technology						
Chicago, IL (*Troy, MI; Nashville, TN; Collins College, Phoenix, AZ*)	26.8%	28.6%	22.6%	17.5%	15.3%	17.6%
Tampa, FL (*Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts, Orlando, FL; Sanford-Brown College, Portland, OR)*	26.8%	26.9%	20.2%	17.9%	17.0%	16.1%
Le Cordon Bleu College of Culinary Arts						
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL)*	29.7%	28.8%	22.0%	24.9%	18.7%	15.9%
Pasadena, CA (*Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL; and Skokie, IL; Sanford-Brown Institute, Orlando, FL)*	26.7%	20.7%	14.9%	19.6%	16.2%	9.6%

Table of Contents

School, Main Campus Location	Cohort Default Rates					
	3-year rate			2-year rate		
(Additional locations as defined by accreditors are in parentheses)	2010	2009	2008 (trial)	2011	2010	2009
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	24.0%	23.9%	19.8%	15.1%	13.7%	12.0%
San Francisco, CA	25.1%	19.8%	15.4%	17.0%	15.7%	12.0%
Scottsdale, AZ (includes Online) (*Miramar, FL; Cambridge, MA*; *Las Vegas, NV)*	28.5%	26.4%	20.0%	18.0%	17.8%	12.2%
Le Cordon Bleu College of Culinary Arts in Chicago						
Chicago, IL	23.2%	28.3%	18.6%	19.6%	14.0%	18.1%
Missouri College						
Brentwood, MO	19.0%	22.2%	20.0%	11.0%	10.4%	11.4%
Sanford-Brown College						
Atlanta, GA *(Austin, TX; Columbus, OH; Houston, TX; Houston North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Ft. Lauderdale, FL; New York, NY; and Trevose, PA)*	22.6%	28.4%	24.7%	13.6%	13.9%	18.5%
Boston, MA *(Sanford-Brown College, Inc., a private two-year college)*	25.9%	26.3%	27.4%	20.5%	17.7%	14.2%
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	19.4%	23.9%	27.2%	14.6%	10.5%	16.2%
Farmington, CT	21.7%	22.5%	28.5%	17.4%	14.6%	12.6%
Fenton, MO (*St. Peters, MO)*	23.5%	26.9%	20.9%	12.7%	14.0%	16.2%
McLean, VA	31.6%	31.5%	25.4%	17.9%	17.9%	18.9%
Sanford-Brown Institute						
Jacksonville, FL *(Iselin, NJ; Tampa, FL)*	24.2%	27.5%	20.5%	15.1%	14.5%	16.7%
Pittsburgh, PA *(Wilkins Township, PA)*	26.6%	24.4%	15.4%	16.9%	14.6%	15.0%
White Plains, NY	27.1%	27.7%	22.1%	15.4%	21.8%	15.2%
SBI Campus an Affiliate of Sanford-Brown						
Melville, NY *(Sanford-Brown Institute, Cranston, RI)*	26.2%	26.6%	18.6%	16.6%	17.5%	15.5%

Financial Responsibility Standards

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

Zone Alternative. Under what is referred to as the zone alternative, an institution may continue to participate in Title IV Programs for up to three years under additional monitoring and reporting

procedures but without having to post a letter of credit in favor of ED. These additional monitoring and reporting procedures include being transferred from the advance method of payment of Title IV Program funds to cash monitoring status (referred to as Heightened Cash Monitoring 1, or HCM1, status) or to the reimbursement or Heightened Cash Monitoring 2 (HCM2) methods of payment. If an institution does not achieve a composite score of at least 1.0 in one of the three subsequent years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the three-year period, the institution must satisfy another alternative standard to continue participating in Title IV Programs.

Letter of Credit Alternative. An institution that fails to meet one of the standards of financial responsibility, including by having a composite score less than 1.5, may demonstrate financial responsibility by submitting an irrevocable letter of credit to ED in an amount equal to at least 50% of the Title IV Program funds that the institution received during its most recently completed fiscal year.

Provisional Certification. If an institution fails to meet one of the standards of financial responsibility, including by having a composite score less than 1.5, ED may permit the institution to participate under provisional certification for up to three years. If ED permits a school to participate under provisional certification, an institution must comply with the requirements of the zone alternative, including being transferred to the HCM1, HCM2 or reimbursement method of payment of Title IV Program funds, and must submit a letter of credit to ED in an amount determined by ED which can range from 10%-100% of the Title IV Program funds that the institution received during its most recently completed fiscal year. If an institution is still not financially responsible at the end of the period of provisional certification, including because it has a composite score of less than 1.0, ED may again permit provisional certification subject to the terms ED determines appropriate.

ED applies its quantitative financial responsibility tests annually based on an institution s audited financial statements and may apply the tests if a school undergoes a change in control or under other circumstances. ED also may apply the tests to the parent company of our schools, and to other related entities. Recent profitability declines and the write down of the carrying value of non-financial assets, such as deferred tax assets and goodwill, have negatively impacted our financial responsibility composite scores. Our composite score for the consolidated entity for the year ended December 31, 2012 was 1.6, and our preliminary calculation for the year ended December 31, 2013 is 1.5, which are considered financially responsible without conditions or additional oversight. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity, Financial Position and Capital Resources, for more information regarding our efforts to comply with ED s standards of financial responsibility. If in the future we are required to satisfy ED s standards of financial responsibility on an alternative basis, including potentially by posting irrevocable letters of credit, we may not have the capacity to post these letters of credit.

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

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

Return and Refunds of Title IV Program Funds

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

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

Institutions are required to return any unearned Title IV funds within 45 days of the date the institution determines that the student has withdrawn. An institution that is found to be in non-compliance with ED refund requirements for either of the last two completed fiscal years must post a letter of credit in favor of ED in an amount equal to 25% of the total Title IV Program returns that were paid or should have been paid by the institution during its most recently completed fiscal year. As of December 31, 2013, we have posted no letters of credit in favor of ED due to non-compliance with ED refund requirements.

Change of Ownership or Control

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

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

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

The HEA generally requires that proprietary institutions be fully operational for two years before applying to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish a start-up branch campus or location and participate in Title IV Programs at the start-up campus without reference to the two-year requirement if the start-up campus has received all of the necessary state and

accrediting agency approvals, has been reported to ED, and meets certain other criteria as defined by ED. Nevertheless, under certain circumstances, a start-up branch campus may also be required to obtain approval from ED to be able to participate in Title IV Programs.

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

Administrative Capability

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

Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments

An institution participating in Title IV Programs cannot provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or Title IV financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance. Many of these restrictions were the result of new regulations issued in October 2010 which became effective July 1, 2011. These restrictions required us to terminate certain compensation payments to our affected employees and to implement changes in contractual and other arrangements with third parties to change structures formerly allowed under ED rules, and has had an impact on our ability to compensate, recruit, retain and motivate affected admissions and other affected employees as well as on our business arrangements with third-party lead generators and other marketing vendors.

Further, ED s laws and regulations regarding this rule do not establish clear criteria for compliance in all circumstances. If ED determined that an institution s compensation practices violated these standards, ED could subject the institution to monetary fines, penalties or other sanctions.

Substantial Misrepresentation

The HEA prohibits an institution participating in Title IV Programs from engaging in substantial misrepresentation of the nature of its educational programs, financial charges, graduate employability or its relationship with ED. Under ED s rules, a misrepresentation is any statement (made in writing, visually, orally or otherwise) made by the institution, any of its representatives or a third party that provides educational programs, marketing, advertising, recruiting, or admissions services to the institution, that is false, erroneous or has the likelihood or tendency to deceive, and a substantial misrepresentation is any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person s detriment. Considering the broad definition of substantial misrepresentation, it is possible that, despite

Table of Contents

our training efforts and compliance programs, our institutions employees or service providers may make statements that could be construed as substantial misrepresentations. If ED determines that one of our institutions has engaged in substantial misrepresentation, ED may revoke the institution s program participation agreement, deny applications from the institution for approval of new programs or locations or other matters, or initiate proceedings to fine the institution or limit, suspend, or terminate its eligibility to participate in Title IV Programs; the institution could also be exposed to increased risk of action under the federal False Claims Act.

Eligibility and Certification Procedures

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

ED may place an institution on provisional certification status if it finds that the institution does not fully satisfy all required eligibility and certification standards. Provisional certification does not generally limit an institution s access to Title IV Program funds. ED may withdraw an institution s provisional certification without advance notice if ED determines that the institution is not fulfilling all material requirements. Several of our institutions are currently on provisional certification: Briarcliffe College (open ED program reviews); Sanford-Brown College Boston and Le Cordon Bleu College of Culinary Arts Scottsdale (administrative capability); and our Sanford-Brown institutions in Atlanta, GA, Boston, MA, Farmington, CT, Fenton, MO and McLean, VA, as well as Missouri College (90-10 Rule percentages above 90% in fiscal 2011).

OTHER INFORMATION

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

Table of Contents

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

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

We and other for-profit postsecondary education providers have been subject to increased regulatory scrutiny and litigation in recent years. State Attorneys General, the U. S. Department of Education, members and committees of Congress, various advocacy and lobbying groups and other parties have increasingly focused on various aspects of the education industry, including accreditation matters, student debt, student recruiting, student success and outcomes and other matters. For example, in July 2012 the U.S. Senate Committee on Health, Education, Labor and Pensions (HELP Committee) released a report analyzing information requested from 30 companies operating proprietary schools (including us and other publicly traded companies providing proprietary postsecondary education services). The report contended that these institutions have a high cost of attendance, engage in aggressive and deceptive recruiting, have high drop-out rates, provide insufficient student support services and are responsible for high levels of student debt and loan defaults, among other things, and called for increased disclosure of information about student outcomes at for-profit colleges and universities, prohibiting institutions from using federal financial aid funding to market, advertise and recruit, amending the 90-10 Rule to prohibit these institutions from receiving more than 85 percent of their revenues from federal funds, prohibiting the use of mandatory binding arbitration clauses in enrollment agreements and other measures ostensibly to protect students and taxpayers. This increased scrutiny has led to negative publicity about these topics and we expect this to continue.

Various members of Congress and certain states have proposed legislation directed at the for-profit education sector, and current authorization of the HEA is due to expire at the end of 2014. The HELP Committee report, the increased scrutiny of the for-profit postsecondary education sector and the focus on U.S. debt levels and deficit spending could lead to significant regulatory changes in connection with the upcoming reauthorization of the HEA or otherwise, and many of these changes are likely to be adverse to postsecondary schools generally or for-profit schools specifically. Various groups continue to actively lobby state and federal regulators to adopt stringent rules selectively targeting for-profit schools. Further, these circumstances could also lead to additional federal or other investigations of the sector and third-party litigation alleging statutory violations, regulatory infractions or common law causes of action.

The further adoption of laws or regulations that limit our schools ability to attract new students or that reduce funding for federal student financial aid programs or the ability of our schools or students to participate in these programs could have a material adverse effect on our student population and revenue. Legislative action may also increase our administrative costs and require us to modify our practices or strategies in order for our schools to comply with applicable requirements.

If our schools fail to comply with the extensive regulatory requirements for school operations in the educational services industry, we could incur financial penalties, restrictions on our operations, loss of federal and state financial aid funding for our students, or loss of our authorization to operate our schools.

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

Table of Contents

A significant portion of our U.S.-based students rely on Title IV Programs, and we derive a substantial portion of our revenue and cash flows from Title IV Programs. For example, for the fiscal year ended December 31, 2013, approximately 90% of our U.S.-based students who were in a program of study at any date during that year participated in student aid and loans under Title IV Programs, which resulted in Title IV Program cash receipts recorded by the Company of approximately $807.5 million.

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

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

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

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

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

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

Table of Contents

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

The U.S. Department of Education has promulgated a substantial number of new regulations in recent years that impact our business, including but not limited to compensation rules for persons engaged in certain aspects of admissions and financial aid, state authorization, determination of attendance and definitions of a credit hour and a substantial misrepresentation which became effective on July 1, 2011. These new regulations, known as the program integrity rules, have had significant impacts on our business, requiring a large number of reporting and operational changes and resulting in changes to and elimination of certain educational programs.

In 2013, ED announced negotiated rule-making initiatives on several matters, including gainful employment, state authorization of distance learning or online programs and underwriting standards for some student loans. See Item 1, Business, for information about gainful employment and state authorization regulations, how portions of prior regulations on these matters were invalidated by the courts and how these matters generally affect our business. The draft gainful employment regulations issued in 2013 include some provisions which are more restrictive than the terms of the prior gainful employment regulations. These and other future regulatory actions by ED or other agencies that regulate our schools are likely to occur and to have significant impacts on our business, require us to change our business practices and incur costs of compliance and of developing and implementing changes in operations, as has been the case with past regulatory changes. As mentioned above, the HELP Committee report, the increased scrutiny of the private, postsecondary education sector and the ongoing policy differences in Congress regarding spending levels could lead to significant regulatory changes in connection with the upcoming reauthorization of the HEA, and many of these changes are likely to be adverse to postsecondary schools generally or proprietary schools specifically.

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

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

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

Recent profitability declines and the write down of the carrying value of non-financial assets, such as deferred tax assets and goodwill, have negatively impacted our financial responsibility scores. We may be required to seek further cost reductions, raise equity, sell additional assets or implement other significant changes to our business to remain compliant with the annual financial responsibility tests, and investment decisions, such as the use of our cash, may be impacted by our compliance efforts. If in the future we are required to satisfy ED s standards of financial responsibility on an alternative basis, including potentially by posting irrevocable letters of credit, we may not have the capacity to post these letters of credit.

Table of Contents

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

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

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

To remain eligible to participate in Title IV Programs, our schools must maintain student loan cohort default rates below specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The applicable cohort default rate for each cohort is now the percentage of the students in the cohort who default on their student loans prior to the end of the two following federal fiscal years, which represents a three-year measuring period. If an educational institution s cohort default rate exceeds the applicable standards, it may be required to delay for 30 days the release of the first disbursement of U.S. federal student loan proceeds to first time borrowers, establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate, be subject to provisional certification imposing various additional requirements for participation in Title IV Programs or, depending on the duration or magnitude of the compliance failure, cease participation in Title IV Programs. In September 2013, ED published the three-year cohort default rates for the 2010 cohort, and one of our institutions which is in teach-out had a three-year rate in excess of the applicable standard for the second year.

We believe maintaining cohort default rates in compliance with the standards will remain challenging due to the economic climate and changes in the manner in which student loans are serviced. All federal student loans have migrated to the Federal Direct Loan Program under which the federal government lends directly to students. This could adversely impact loan repayment rates and our schools cohort default rates if the federal government is less effective in promoting timely repayment of federal student loans than the private lenders were under the FFELP.

See Item 1, Business Student Financial Aid and Related Federal Regulation Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations *Student Loan Default Rates,* for more information about cohort default rates, ED s standards and penalties applicable thereto as well as the change to federal servicing of student loans and the Company s rates for each of its institutions.

If our student loan default rates approach applicable limits, we may be required to increase our efforts and resources dedicated to improving these default rates. In February 2014, ED released draft three-year cohort default rates for the 2011 cohort, and our LCB Austin institution, which includes five Culinary Arts campuses which are not in teach-out, had a three-year rate in excess of the applicable standard. In addition, because there is a lag between the funding of a student loan and a default thereunder, many of the borrowers who are in default or at risk of default are former students with whom we may have only limited contact. Accordingly, we may not be able to effectively improve our default rates or improve them in a timely manner to meet the requirements for continued participation in Title IV Program funding if we experience an increase in our student loan default rates.

If any of our schools were to lose eligibility to participate in Title IV Programs due to student loan default rates being higher than ED s thresholds and we could not arrange for adequate alternative student financing

Table of Contents

sources, we would most likely have to close those schools, which could have a material adverse effect on our student population, financial condition, results of operations and cash flows.

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

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

Several factors have adversely affected our schools 90-10 Rule percentages in recent years, and we expect this negative impact to continue. We have implemented various measures intended to reduce the percentage of our institution s cash basis revenue attributable to Title IV Program funds, but they have had only limited impact to date and there is no assurance that they will be adequate to prevent our schools 90-10 Rule percentages from exceeding 90% in the future. One such measure is delaying the disbursement and subsequent receipt of Title IV Program funds. During 2012, we delayed receipt of approximately $24.3 million of Title IV funds to help our institutions comply with the 90-10 Rule for fiscal 2012. We have adjusted tuition at several of our campuses for programs that are under pressure to comply with the 90-10 Rule, which could adversely affect our enrollment and our cohort default rates. The ability of our institutions to maintain 90-10 rates below 90% will depend on the impact of future changes in our enrollment mix and regulatory and other factors outside of our control, including any reduction in government assistance for military personnel, including veterans, or changes in the treatment of such funding for purposes of the 90-10 rate calculation. In addition, there is a lack of clarity regarding some of the technical aspects of the calculation methodology under the 90-10 Rule, which may lead to regulatory action or investigations by ED. Changes in, or new interpretations of, the calculation methodology or other industry practices under the 90-10 Rule could further significantly impact our compliance with the 90-10 Rule, and any review or investigation by ED involving us could require a significant amount of resources.

On February 11, 2014, we notified ED that our preliminary review of our institutions 90-10 Rule percentages identified four of our OPEIDs which are in teach-out exceeding the 90% limit for our 2013 fiscal year. For our 2011 fiscal year, six of our OPEIDs (representing 16 campus locations) had 90-10 Rule percentages above 90%. Eleven out of the 16 campus locations that comprise these six OPEIDs are in the process of a teach-out or have been taught out as of December 31, 2013. The six institutions that exceeded the 90-10 Rule limit in 2011 were placed on provisional certification for two years in accordance with the rule s requirements. ED has broad discretion to impose additional sanctions on institutions that fail the 90-10 Rule limit, but there is only limited precedent available to predict what those additional sanctions might be in the future, particularly in the current regulatory environment. ED could specify a wide range of additional conditions as part of the provisional certification and the institutions continued participation in Title IV Programs. These conditions may include, among other things, restrictions on the total amount of Title IV Program funds that may be distributed to students attending the institutions; restrictions on programmatic and geographic expansion; requirements to obtain and post letters of credit; and additional reporting requirements to include additional interim financial or enrollment reporting. Should an institution be subject to provisional certification at the time that its program participation agreement expires, the effect on the institution s recertification or its continued eligibility to participate in Title IV Programs pending recertification is uncertain. Two of the six institutions on provisional certification for 90-10 Rule percentages above 90% for 2011 have submitted applications for recertification due to program participation agreements which expired before the end of 2013.

See Item 1, Business Student Financial Aid and Related Federal Regulation Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations *90-10 Rule,* for more information about the 90-10 Rule, the factors which have adversely affected our ability to comply, the measures we have implemented to improve our compliance and the OPEIDs which are on provisional certification.

If any of our institutions lose eligibility to participate in Title IV Programs due to violation of the 90-10 Rule, such institutions operating and financial results would be materially adversely affected. Efforts to reduce the 90-10 Rule percentage for our institutions, especially if the percentage exceeds 90% for a fiscal year, have and may in the future involve taking measures that involve interpretations of the 90-10 Rule that are without clear precedent, reduce our revenue, increase our operating expenses (or any or all of the foregoing, in each case perhaps significantly). If the 90-10 Rule is not changed to provide relief for proprietary institutions, we may be required to make structural changes to our business or teach-out additional campuses in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make more difficult our ability to comply with other important regulatory requirements, such as the cohort default rate regulations.

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

Because we operate in a highly regulated industry, we are subject to compliance reviews and audits as well as claims of noncompliance and lawsuits by government agencies, regulatory agencies and third parties. In this regard, we have several pending audits, inquiries and claims against us, including ED s Office of Inspector General audit of CTU and inquiries from ED, the SEC and various other regulators pertaining to our historical placement determination practices and related matters. See Note 13 Commitments and Contingencies of the notes to our consolidated financial statements for additional discussion of these pending matters.

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

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

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

Our schools are subject to extensive state-level regulation and oversight by state licensing agencies, whose approval or exemption is necessary to allow an institution to operate and grant degrees or diplomas. State laws vary from state to state, but generally establish standards for faculty qualifications, the location and nature of facilities, financial policies, new programs and student instruction, administrative staff, marketing and

recruitment and other operational and administrative procedures. Any failure of one of our schools to maintain state authorization would result in that school being unable to offer educational programs and students attending the campus being ineligible for Title IV Programs. State legislatures often consider legislation affecting regulation of postsecondary educational institutions. Enactment of this legislation and ensuing regulations, or changes in interpretation of existing regulations, may impose substantial costs on our schools and require them to modify their operations in order to comply with the new regulations.

For example, in October 2010 ED issued new regulations which impose requirements on states with regard to their licensure and authorization of postsecondary institutions such as those operated by us. States that did not currently have an approval framework that met ED requirements had to modify their authorization and licensure requirements in order for them to maintain their eligibility to participate in Title IV Programs. State regulatory changes and approval and exemption processes can be lengthy and may be made more difficult and time consuming as a result of state budget challenges, increased pressures on states caused by new federal regulations and staffing shortages. These new requirements went into effect July 1, 2011 and required our schools to react quickly to a changing state regulatory landscape as they adapted to the new guidelines imposed by ED.

The October 2010 regulations also required that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the October 2010 regulations requiring proof of state approval for online education programs and this ruling was affirmed on appeal. In 2013, ED announced negotiated rule-making initiatives on several matters, including state authorization of distance learning or online programs. Our schools offering distance learning had already begun completing additional state applications for licensures or confirming exemptions for their distance learning programs prior to the partial invalidation of the October 2010 regulations, and we continued to process the applications that were submitted. State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear, and the interpretation of such regulations is generally left to the discretion of state employees or agents. In response to the new ED rules, many states that had not previously regulated delivery of online courses and programs have enacted legislation, regulations or interpretations of existing regulations to specifically address online educational programs, such as those offered by our schools.

If we fail or are unable to comply with current or future state licensing or authorization requirements, are unable to successfully obtain new required state approvals for our schools offering online education, or determine that we are unable to cost effectively comply with new or changed state licensing or authorization requirements, we could lose enrollments, eligibility to participate in Title IV Programs and revenues in any affected states, which could materially affect our revenues and our growth opportunities.

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

Institutional Accreditation. In the U.S., accrediting agencies periodically review the academic quality of an institution s instructional programs and its administrative and financial operations to ensure that the institution has the resources to perform its educational mission. ED relies on accrediting agencies to assess whether an institution s educational programs qualify the school to participate in Title IV Programs. A number of our schools are in the process of, or soon will be, undergoing reviews by their accrediting agencies due to scheduled expiration of their accreditation in 2014, including AIU and multiple ACICS campuses. See Item 1, Business Accreditation and Jurisdictional Authorizations Institutional Accreditation and Compliance Monitoring by Accrediting Agencies.

The failure to comply with accreditation standards will subject an institution to additional oversight and reporting requirements, accreditation proceedings such as a show-cause directive, an action to defer or deny action related to an institution s application for a new grant of accreditation or an action to suspend an

Table of Contents

institution s accreditation or a program s approval. See, for example, the risk factor below regarding minimum placement rate standards. If our schools or programs are subject to accreditation actions or are placed on probationary accreditation status, we may experience additional adverse publicity, impaired ability to attract and retain students and substantial expense to obtain unqualified accreditation status.

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

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

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

Most of our campuses are required to achieve minimum placement standards which have been difficult to achieve.

Our national accreditors, some programmatic accreditors and some state licensing bodies require our campuses and/or programs to achieve placement rates of between 47.5% and 80% within limited time periods after students have graduated, and many of these standards have been increasing over recent years. During this protracted period of economic slowdown and high unemployment across the U.S., job prospects for many college graduates, regardless of the institution they attend or the degree they have earned, have been diminished as new graduates are facing increased competition from displaced workers with, in some cases, significant work experience. Many graduates, including those who have attended our institutions, have experienced a lengthening of the time it takes to obtain their first full-time, in-field job after graduation. We believe our placement rates have been and will continue to be adversely impacted by current economic conditions until there is improvement in the national and local unemployment rates and a higher rate of job growth. The various minimum placement standards required by our accreditors and state regulators generally do not fluctuate based on economic conditions, although they may take these factors into consideration when determining how to respond to campuses or programs that fail to maintain their minimum standards. In addition, there is a lack of clarity and uniformity in many instances regarding how a placement is defined by our accreditors and state regulators, which contributes to the difficulty and lack of certainty of being in compliance with these minimum placement standards.

Achieving minimum placement standards is dependent upon internal factors as well, such as the efforts of our career services personnel, our ability to provide adequate staffing to achieve desired results, program quality and the effectiveness of our strategies to improve placement rates.

Table of Contents

For the ACICS 2013 reporting year, 15 of our 38 ACICS-accredited campuses that are not in teach-out are subject to increased levels of accreditation oversight because they fell below ACICS benchmark placement or retention rate standards, including three campuses that reported placement rates below the minimum compliance standard. For the 2013 ACICS reporting year, the minimum acceptable placement rate compliance standard increased from 47% to 60%, and the benchmark placement rate standard increased from 64% to 70%, which has made compliance with these standards more difficult. The Company s five ACCSC-accredited campuses and many of our programmatically-accredited programs are also subject to additional reporting requirements relating to placement rates.

See Item 1, Business Accreditation and Jurisdictional Authorizations Compliance Monitoring by Accrediting Agencies Employment Placement Rate Standards and Other Student Achievement Outcomes, for more information about the requirements applicable to our schools and our compliance therewith.

Failure to achieve minimum placement standards could result in a loss of accreditation or state regulatory approvals for the campus as a whole or for specific programs. We have had to cap enrollment in or teach-out certain programs due to low placement opportunities for graduates of those programs, and we may need to take these steps with respect to more programs and/or campuses if we are unable to place our graduates within the time frames required by the accreditors and states that regulate our institutions. These actions reduce our revenues and therefore could have a material adverse effect on our results of operations, cash flows and financial condition. These actions may also reduce student interest in our programs and/or campuses, which would further negatively impact our business.

We need timely approval by applicable regulatory agencies to offer new programs, make substantive changes to existing programs, or expand our operations into or within certain states.

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

Risks Related to Our Business

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

We have experienced reduced new student enrollments in recent periods. The continuation of the current protracted economic slowdown and heightened unemployment could further harm our business. Diminished job prospects and heightened financial worries could continue to affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. Conversely, an improving economy and improving job prospects may lead prospective students to choose to work rather than to pursue postsecondary education. Our enrollments could suffer from any of these circumstances.

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

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

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

We and certain of our current and former directors and executive officers have been named as defendants in various lawsuits, investigations and claims covering a range of matters, including, but not limited to, violations of the federal securities laws, breaches of fiduciary duty and claims made by current and former students and employees of our schools. These claims have included a securities class action claim captioned *Ross, et al. v. Career Education Corporation, et al.* (United States District Court for the Northern District of Illinois) claiming, among other things, that the defendants violated Section 10(b) of the Exchange Act by making material misstatements in and omitting material information from our public disclosures concerning our schools employment placement rates and compliance with accreditation standards. These claims have also included qui tam actions filed in federal court by individual plaintiffs on behalf of themselves and the federal government alleging that we submitted false claims or statements to ED in violation of the False Claims Act. Qui tam actions are filed under seal, and remain under seal until the government decides whether it will intervene in the case. If the government elects to intervene in an action, it assumes primary control of that matter; if the government elects not to intervene; individual plaintiffs may continue the litigation at their own expense on behalf of the government. See Note 13 Commitments and Contingencies of the notes to our consolidated financial statements for additional discussion of these and other matters. Additional actions may arise in the future.

We and our schools also are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance and litigation by ED, federal and state regulatory agencies, accrediting agencies, state attorney general offices, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards, consumer protection and other legal and regulatory requirements applicable to us or our schools. For example, the Chicago Regional Office of the Securities and Exchange Commission is conducting an inquiry pertaining to our previously reported internal investigation of student placement determination practices and related matters. In addition, we have received inquiries from attorneys general in 16 states, including a January 2014 collective inquiry by 12 states relating to potential non-compliance with applicable state laws and regulations by certain of our schools. See Note 13 Commitments and Contingencies of the notes to our consolidated financial statements for additional discussion of these and other matters. If the results of any such audits, reviews, inquiries, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, undertakings, additional oversight and reporting, or other civil or criminal penalties.

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

We are subject to a variety of other claims and litigation that arise from time to time alleging non-compliance with or violations of state or federal regulatory matters including, but not limited to, claims involving students, graduates and employees. In the event the extensive changes in the overall federal and state regulatory construct results in additional statutory or regulatory bases for these types of matters, or other events result in more of such claims or unfavorable outcomes to such claims, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows and results of operations for the periods in which the effects of any such matter or matters becomes probable and reasonably estimable.

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

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

We may face excess capacity if student enrollments continue to decrease or if we decide to terminate the offering of certain programs. We must balance current student populations and projected changes in student population with appropriate levels of costs and investment in real estate and our online platforms in order to effectively manage capacity. We have in the past decided to teach out and cap enrollments in certain programs due to existing regulatory considerations such as minimum placement rate standards and the 90-10 Rule, as well as other factors. We have also made the decision to teach out certain campuses after evaluating a number of factors including, but not limited to: the overall performance of the campus including operating results, new student starts, placement opportunities in the local market, degree of market competition from both for-profit and not-for-profit schools and the existing lease obligation for the campus. In late 2012 and 2013, we announced plans to teach out approximately 30 campuses as part of our strategy to simplify the organization, including the decision to invest in a smaller number of ground-based campuses. Changes in the economy, regulatory environment or unavailability of Title IV Program funds may cause us to terminate additional programs or teach out additional campuses. All of these actions may contribute to significant decreases in enrollments in our continuing programs. Closing facilities or other exit activities involve costs and expenses which can be significant, and therefore affect profitability. For example, see Note 11 Restructuring Charges of the notes to our consolidated financial statements for a discussion of such costs in connection with the decisions made in 2012 and 2013 regarding campus closures and reductions in work force. Actual costs and expenses involved in closing facilities or other exit activities may be higher than expected and the benefits anticipated may be less due to a number of factors including unanticipated expenses in teaching out campuses and higher than expected lease exit costs.

We compete with a variety of educational institutions, and if we are unable to compete effectively, our student population and revenue could be adversely impacted.

The postsecondary education industry is highly fragmented and increasingly competitive. Our schools compete with traditional public and private two-year and four-year colleges and universities, other proprietary schools, other online education providers, and alternatives to higher education, such as immediate employment and military service. Some public and private institutions charge lower tuition for courses of study similar to those offered by our schools due, in part, to government subsidies, government and foundation grants, tax-deductible contributions and other financial resources not available to proprietary institutions. Our competitors may have substantially greater brand recognition and financial and other resources than we have, which may

Table of Contents

enable them to compete more effectively for potential students. Our strategy to invest in a smaller number of brands within our Career Schools may impact our ability to compete effectively, including the potential difficulty of building brand awareness in markets where brand changes occur. We also expect to experience increased competition as more colleges, universities, and other postsecondary education providers increase their online program offerings. An increase in competition could affect the success of our recruiting efforts, or cause us to reduce our tuition rates and increase our marketing and other recruiting expenses, which could adversely impact our profitability and cash flows.

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

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

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

In accordance with U.S. GAAP, we review our non-financial assets and non-financial liabilities, including goodwill and indefinite-lived intangible assets, such as our trade names and deferred tax assets, for impairment on at least an annual basis through the application of fair value-based measurements. On an interim basis, we review our assets and liabilities to determine if a triggering event had occurred that would result in it being more likely than not that the fair value would be less than the carrying amount for any of our reporting units or indefinite-lived intangible assets. We determine the fair value of our reporting units using a combination of an income approach, based on discounted cash flow, and a market-based approach. To the extent the fair value of a reporting unit is less than its carrying amount, we may be required to record an impairment charge in the consolidated statements of (loss) income and comprehensive (loss) income. We determine the fair value of our trade names using a relief from royalty method which is based on the assumption that, in lieu of ownership of an intangible asset, a company would be willing to pay a royalty in order to enjoy the benefits of the asset. To the extent the fair value of the trade name is less than its carrying amount, we record an impairment charge in the consolidated statements of (loss) income and comprehensive (loss) income. During 2013 and 2012, we recorded goodwill and trade name impairment charges of $14.7 million and $96.1 million, respectively, for our continuing operations (see Note 10 Goodwill and Other Intangible Assets of the notes to our audited consolidated financial statements). Our estimates of fair value for these are based primarily on projected future results and expected cash flows consistent with our plans to manage the underlying businesses. However, should we encounter unexpected economic conditions or operational results or need to take additional actions not currently foreseen to comply with current and future regulations, the assumptions used to calculate the fair value of our reporting units, including the estimate of future cash flows, revenue growth, and discount rates, could be negatively impacted and could result in an impairment of goodwill or other long-lived assets which could materially adversely affect our financial condition and results of operations.

Furthermore, we believe that our evaluation of deferred tax assets and the need for a valuation allowance against such assets involve critical accounting estimates because they are subject to, among other things, estimates of future taxable income. These estimates are susceptible to change and are dependent on events that may or may not occur. Our assessment of the need for a valuation allowance is material to the assets reported on our consolidated balance sheets and changes in any of the assumptions utilized in this assessment could result in a reduction to our deferred tax assets on our consolidated balance sheet if we determine it is more likely than not that our remaining deferred tax asset balances would not be realizable. In 2013, we recorded a valuation allowance in the amount of $72.2 million related to that portion of our deferred tax assets which we determined were not more likely than not to be realized, based upon the existing positive and negative evidence, most notably the Company s three-year cumulative loss position. Future changes in circumstances that causes a change in judgment about the realizability of the deferred tax asset, could result in an increase or decrease to the valuation allowance recorded within the consolidated balance sheet as of December 31, 2013.

The loss of our key personnel could harm us.

Our future success depends largely on the skills, efforts and motivation of our executive officers and other key personnel, as well as on our ability to attract and retain qualified managers and our schools ability to attract and retain qualified faculty members and administrators. Many leadership positions within the Company have been transitioned over the last several years. This included the appointment of Scott W. Steffey as President and Chief Executive Officer in April 2013. Loss of key personnel in the future could slow implementation of key initiatives, lead to changes in or create uncertainty about our business strategies or otherwise impact management s attention to operations. We face competition in attracting, hiring and retaining executives and key personnel who possess the skill sets and experiences that we seek. Cost reduction measures due to declining enrollments, our recent operating losses and the negative publicity surrounding our industry may make it difficult to attract, hire and retain qualified and experienced personnel. In addition, key personnel may leave us and subsequently compete against us after any period they are contractually obligated not to pursue such activities. The loss of the services of our key personnel, or our failure to attract, integrate and retain other qualified and experienced personnel on acceptable terms could adversely affect our results of operations or financial condition.

Budget constraints in states that provide state financial aid to our students could adversely affect us and our student population by reducing available financial aid.

A significant number of states in which our schools operate face budget constraints that may reduce state appropriations in a number of areas including state student financial aid, but we cannot predict the amount or timing of any such reductions. State grant programs generally benefit our institution s compliance with the 90-10 Rule. If state funding for our students decreases, our institutions compliance with the 90-10 Rule will be adversely affected, which could adversely impact our institutions eligibility for Title IV Programs. If our students are unable to secure alternative sources of funding for their education, our student population could be adversely affected, which could have a material adverse effect on our results of operations, financial condition, and cash flows. Increased state or federal support for public institutions and community colleges, resulting in increased competition for students, also could have a material adverse effect on our enrollments.

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

Effective December 30, 2013, we entered into a $70,000,000 revolving credit facility. The loans and letter of credit obligations under the credit facility are secured by 100% cash collateral. Cash generated by operations may continue to decrease due to lower student enrollments and operating losses. Further, any negative decisions in regulatory proceedings or other legal actions against us may reduce existing available cash balances. We therefore may have liquidity needs in the future which the credit facility will not meet. For example, we may not have the capacity to post required letters of credit we may need in the future for state licensing requirements, if we are required to satisfy ED s standards of financial responsibility on an alternative basis or for other purposes due to insufficient cash available to provide security. If cash generated by operations and existing cash balances

Table of Contents

are insufficient in the future to support our cash requirements, we would need to pursue other sources of liquidity, if available, such as additional sources of credit which may be more expensive, issuance of stock to new investors or a sale of assets.

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

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

If our graduates are unable to obtain professional licenses or certification in their chosen field of study, we may face declining enrollments and revenues or student claims against us.

Many of our students, particularly in the healthcare programs we offer, require or desire professional licenses and certifications in order to obtain employment in their chosen fields. Many factors affect a student s ability to become licensed, including whether the student s program and institution are accredited by a particular accrediting commission or approved by a professional association or by the state in which the student seeks employment, and the student s own qualifications and attainment. If one or more states, local governments or major employers deny licenses, certifications or employment eligibility to a significant number of our students due to factors relating to our institutions or programs, we could suffer reputational harm and declining enrollments in those institutions or programs, or face student claims or litigation that could negatively affect our revenues and results of operations.