ITT EDUCATIONAL SERVICES INC

FORM 10-Q
(Quarterly Report)

Filed 07/29/16 for the Period Ending 06/30/16

Address	13000 NORTH MERIDIAN CARMEL, IN, 46032-1404
Telephone	317 706 9200
CIK	0000922475
Symbol	ESINQ
SIC Code	8200 - Services-Educational Services
Industry	Personal Services
Sector	Consumer Non-Cyclicals
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

OR

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

For the transition period from __________ to __________

Commission file number 1-13144

ITT EDUCATIONAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**36-2061311** **(I.R.S. Employer Identification No.)**
13000 North Meridian Street **Carmel, Indiana** **(Address of principal executive offices)**	**46032-1404** **(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark 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. (Check one):

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

23,988,384

Number of shares of Common Stock, $.01 par value, outstanding at June 30, 2016

ITT EDUCATIONAL SERVICES, INC.
Carmel, Indiana

Quarterly Report to Securities and Exchange Commission
June 30, 2016

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Index

ITT EDUCATIONAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)
(unaudited)

	As of		
	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	$ 77,999	$ 130,897	$ 124,632
Restricted cash	5,408	6,015	6,936
Accounts receivable, net	49,242	48,837	45,204
Private education loans	7,807	8,480	9,379
Deferred income taxes	22,194	26,440	24,795
Prepaid expenses and other current assets	21,328	22,429	57,294
Total current assets	183,978	243,098	268,240
Property and equipment, net	134,402	142,164	150,095
Private education loans, excluding current portion, net	51,960	62,161	69,724
Deferred income taxes	68,496	71,817	67,125
Collateral deposits	91,230	91,168	97,873
Other assets	54,809	53,246	61,030
Total assets	$ 584,875	$ 663,654	$ 714,087
Liabilities and Shareholders' Equity			
Current liabilities:			
Current portion of term loans	$ 34,231	$ 68,161	$ 14,546
Current portion of PEAKS Trust senior debt	12,812	20,105	23,068
Current portion of CUSO secured borrowing obligation	17,706	23,591	19,750
Accounts payable	58,427	59,753	76,476
Accrued compensation and benefits	13,105	12,425	16,535
Other current liabilities	33,152	31,973	27,391
Deferred revenue	85,830	113,739	119,568
Total current liabilities	255,263	329,747	297,334
Term loans, excluding current portion	0	0	76,688
PEAKS Trust senior debt, excluding current portion	26,482	30,701	40,515
CUSO secured borrowing obligation, excluding current portion	88,229	91,728	93,218
Other liabilities	49,857	50,342	57,170
Total liabilities	419,831	502,518	564,925
Commitments and contingencies (See Note 11)			
Shareholders' equity:			
Preferred stock, $.01 par value, 5,000,000 shares authorized, none issued	0	0	0
Common stock, $.01 par value, 300,000,000 shares authorized, 37,068,904 issued	371	371	371
Capital surplus	169,037	181,160	186,501
Retained earnings	981,566	987,223	974,900
Accumulated other comprehensive (loss) income	(2,172)	(1,693)	725
Treasury stock, 13,080,520, 13,394,834 and 13,490,795 shares, at cost	(983,758)	(1,005,925)	(1,013,335)
Total shareholders' equity	165,044	161,136	149,162
Total liabilities and shareholders' equity	$ 584,875	$ 663,654	$ 714,087

The accompanying notes are an integral part of these condensed consolidated financial statements.

ITT EDUCATIONAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$ 176,324	$ 214,231	$ 367,823	$ 444,206
Costs and expenses:				
Cost of educational services	88,592	101,865	180,555	205,418
Student services and administrative expenses	71,705	91,408	149,604	181,660
Asset impairment	317	0	985	0
Legal and professional fees related to certain lawsuits, investigations and accounting matters	1,265	6,005	6,136	13,291
Provision for private education loan losses	1,169	3,313	3,047	4,557
Total costs and expenses	163,048	202,591	340,327	404,926
Operating income	13,276	11,640	27,496	39,280
Interest income	64	22	132	35
Interest (expense)	(6,136)	(9,991)	(13,235)	(20,379)
Income before provision for income taxes	7,204	1,671	14,393	18,936
Provision for income taxes	2,894	955	5,976	7,773
Net income	$ 4,310	$ 716	$ 8,417	$ 11,163
Earnings per share:				
Basic	$ 0.18	$ 0.03	$ 0.35	$ 0.47
Diluted	$ 0.18	$ 0.03	$ 0.35	$ 0.47
Weighted average shares outstanding:				
Basic	23,928	23,621	23,835	23,591
Diluted	24,122	24,086	24,181	23,953

The accompanying notes are an integral part of these condensed consolidated financial statements.

ITT EDUCATIONAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 4,310	$ 716	$ 8,417	$ 11,163
Other comprehensive income (loss), net of tax:				
Net actuarial pension loss amortization, net of income taxes of $0, $0, $0 and $0	0	0	0	1
Prior service cost (credit) amortization, net of income taxes of $149, $151, $298 and $301	(240)	(238)	(479)	(477)
Other comprehensive (loss), net of tax	(240)	(238)	(479)	(476)
Comprehensive income	$ 4,070	$ 478	$ 7,938	$ 10,687

The accompanying notes are an integral part of these condensed consolidated financial statements.

ITT EDUCATIONAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:				
Net income	$ 4,310	$ 716	$ 8,417	$ 11,163
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	4,397	6,061	8,912	12,042
Asset impairment	317	0	985	0
Provision for doubtful accounts	7,529	8,692	14,838	20,875
Deferred income taxes	803	2,554	3,906	12,423
Stock-based compensation expense	721	1,364	1,948	3,260
Accretion of discount on private education loans	(2,525)	(2,948)	(5,249)	(6,029)
Accretion of discount on term loans	329	385	816	776
Accretion of discount on PEAKS Trust senior debt	516	1,365	1,236	3,020
Accretion of discount on CUSO secured borrowing obligation	30	214	75	433
Provision for private education loan losses	1,169	3,313	3,047	4,557
Other	(285)	(148)	(522)	(415)
Changes in operating assets and liabilities:				
Restricted cash	130	(608)	607	(896)
Accounts receivable	(9,685)	(7,696)	(15,243)	(19,696)
Private education loans	6,287	6,601	13,075	13,245
Accounts payable	1,409	848	(1,937)	6,390
Other operating assets and liabilities	(2,033)	(1,931)	(1,415)	(1,214)
Deferred revenue	(20,166)	(20,288)	(27,909)	(27,907)
Net cash flows from operating activities	(6,747)	(1,506)	5,587	32,027
Cash flows from investing activities:				
Capital expenditures	(304)	(1,640)	(1,022)	(2,509)
Collateral and escrowed funds	(1)	59	(62)	59
Net cash flows from investing activities	(305)	(1,581)	(1,084)	(2,450)
Cash flows from financing activities:				
Repayment of term loans	(15,824)	(2,500)	(35,000)	(5,000)
Repayment of PEAKS Trust senior debt	(5,772)	(9,380)	(12,748)	(25,026)
Repayment of CUSO secured borrowing obligation	(1,855)	(6,314)	(9,459)	(10,351)
Common shares tendered for taxes	(161)	(38)	(194)	(505)
Net cash flows from financing activities	(23,612)	(18,232)	(57,401)	(40,882)
Net change in cash and cash equivalents	(30,664)	(21,319)	(52,898)	(11,305)
Cash and cash equivalents at beginning of period	108,663	145,951	130,897	135,937
Cash and cash equivalents at end of period	$ 77,999	$ 124,632	$ 77,999	$ 124,632

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

ITT EDUCATIONAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars and shares in thousands)
(unaudited)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Surplus	Earnings	Income (Loss)	Shares	Amount	Total
Balance as of December 31, 2014	37,069	$ 371	$198,883	$963,737	$ 1,201	(13,619)	$(1,022,120)	$142,072
For the six months ended June 30, 2015:								
Net income				11,163				11,163
Other comprehensive (loss), net of income tax					(476)			(476)
Equity award vesting			(9,290)			198	9,290	0
Tax benefit from equity awards			(6,352)					(6,352)
Stock-based compensation			3,260					3,260
Shares tendered for taxes						(70)	(505)	(505)
Balance as of June 30, 2015	37,069	371	186,501	974,900	725	(13,491)	(1,013,335)	149,162
For the six months ended December 31, 2015:								
Net income				12,135				12,135
Other comprehensive (loss), net of income tax					(2,418)			(2,418)
Equity award vesting			(7,519)			136	7,519	0
Tax benefit from equity awards			(348)					(348)
Stock-based compensation			2,526					2,526
Shares tendered for taxes						(42)	(127)	(127)
Issuance of shares for Directors' compensation				188		2	18	206
Balance as of December 31, 2015	37,069	371	181,160	987,223	(1,693)	(13,395)	(1,005,925)	161,136
For the six months ended June 30, 2016:								
Net income				8,417				8,417
Other comprehensive (loss), net of income tax					(479)			(479)
Equity award vesting			(8,287)	(14,074)		402	22,361	0
Tax benefit from equity awards			(5,784)					(5,784)
Stock-based compensation			1,948					1,948
Shares tendered for taxes						(88)	(194)	(194)
Balance as of June 30, 2016	37,069	$ 371	$169,037	$981,566	$ (2,172)	(13,081)	$ (983,758)	$165,044

The accompanying notes are an integral part of these condensed consolidated financial statements.

ITT EDUCATIONAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(Dollars in thousands, except per share data and unless otherwise stated)

1. The Company and Basis of Presentation

ITT Educational Services, Inc. is a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. References in these Notes to “we,” “us” and “our” refer to ITT Educational Services, Inc., its wholly-owned subsidiaries and the variable interest entities (“VIEs”) that it consolidates, unless the context requires or indicates otherwise. As of June 30, 2016, we were offering:

- master, bachelor and associate degree programs to approximately 40,000 students at ITT Technical Institute and Daniel Webster College locations; and
- short-term information technology and business learning solutions for career advancers and other professionals.

As of June 30, 2016, we had 137 campus locations in 39 states. In addition, we offered one or more of our online degree programs to students who are located in all 50 states and the District of Columbia. We closed one campus location in the three months ended June 30, 2016 and expect to close one campus location in the six months ending December 31, 2016 based upon the expected date that the remaining students at that location are scheduled to complete their programs of study. All of our campus locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (“ED”). We have provided career-oriented education programs since 1969 under the “ITT Technical Institute” name and since 2009 under the “Daniel Webster College” name. Our corporate headquarters are located in Carmel, Indiana.

The accompanying unaudited condensed consolidated financial statements include the accounts of ITT Educational Services, Inc., its wholly-owned subsidiaries and, beginning on February 28, 2013 and September 30, 2014, two VIEs that we consolidate in our consolidated financial statements, and have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim periods and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures, including significant accounting policies, normally included in a complete presentation of financial statements prepared in accordance with those principles, rules and regulations have been omitted. All significant intercompany balances and transactions are eliminated upon consolidation. The Condensed Consolidated Balance Sheet as of December 31, 2015 was derived from audited financial statements but, as presented in this report, may not include all disclosures required by GAAP.

We reclassified debt issuance costs that were previously reported in the line item Other assets on our Condensed Consolidated Balance Sheets as of December 31, 2015 and June 30, 2015 to the line items Current portion of term loans and Term loans, excluding current portion, upon adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). These reclassifications had no impact on previously reported net income, total shareholders’ equity or cash flows. See Note 8 – Debt, for the amount of debt issuance costs that were reclassified.

In the three months ended March 31, 2016, we recorded a charge of $668 for the impairment of a building and other long-lived assets. We reclassified that amount to the separate line item Asset impairment in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows in this report to conform to the current period presentation. We previously reported that amount in Cost of educational services in our Condensed Consolidated Statements of Operations and in Depreciation and amortization in our Condensed Consolidated Statements of Cash Flows. This reclassification had no impact on previously reported net income, total shareholders’ equity or cash flows. See Note 3 – Fair Value and Credit Risk of Financial Instruments for further discussion of the charge for the impairment of the building. In the three months ended June 30, 2016, we recorded a charge of $317 for the impairment of long-lived assets at one facility.

We review the operations of our business on a regular basis to determine our reportable operating segments, as defined in Accounting Standards Codification (“ASC” or “Codification”) 280, “Segment Reporting.” As of June 30, 2016, December 31, 2015 and June 30, 2015, we reported our financial results under one reportable operating segment.

In the opinion of our management, the condensed consolidated financial statements reflect all adjustments that are normal, recurring and necessary for a fair presentation of our financial condition and results of operations. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“2015 Form 10-K”) as filed with the SEC.

2. New Accounting Guidance and Adoption of New Accounting Guidance

New Accounting Guidance. In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which is included in the Codification under ASC 326, “Financial Instruments – Credit Losses” (“ASC 326”). This guidance amends how credit losses are measured and reported for certain financial instruments. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2020, with early adoption permitted, but not earlier than our annual reporting period beginning January 1, 2019. A modified retrospective approach is to be used for certain parts of this guidance, while other parts of the guidance are to be applied using a prospective approach. We are assessing the impact that ASU 2016-13 may have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvement to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which is included in the Codification under ASC 718, “Compensation – Stock Compensation” (“ASC 718”). This guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2017, with early adoption permitted. A modified retrospective approach is to be used for certain parts of this guidance, while other parts of the guidance are to be applied using a retrospective or prospective approach. We are assessing the impact that ASU 2016-09 may have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”), which is included in the Codification under ASC 840, “Leases” (“ASC 840”). This guidance introduces a new lessee model that brings substantially all leases on the balance sheet and represents a significant change to lease accounting. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2019, with early adoption permitted. A modified retrospective approach is to be used for the adoption of this guidance. We are assessing the impact that ASU 2016-02 may have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”), which is included in the Codification under ASC 740, “Income Taxes” (“ASC 740”). This guidance simplifies the presentation of deferred income taxes by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2017. Earlier adoption is permitted as of the beginning of an interim or annual reporting period. The amendments in ASU 2015-17 may be applied either prospectively to all deferred income tax liabilities and assets or retrospectively to all periods presented. We are assessing the impact that this guidance may have on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”), which is included in the Codification under ASC 330, “Inventory” (“ASC 330”). This guidance requires inventory to be measured at the lower of cost and net realizable value under certain circumstances. Current guidance requires inventory to be measured at the lower of cost or market value, where market value could be either replacement cost, net realizable value, or net realizable value less a normal profit margin. This guidance will be effective for our interim and annual reporting periods beginning January 1, 2017, with early adoption permitted. A prospective approach is to be used for the adoption of this guidance. We do not expect the adoption of ASU 2015-11 to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which is included in the Codification under ASC 205, “Presentation of Financial Statements” (“ASC 205”). This guidance was issued to define management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosure in certain circumstances. Under the new guidance, management is required to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. The guidance will be effective for our interim and annual reporting periods beginning January 1, 2017, with early adoption permitted. A prospective approach is to be used for the adoption of this guidance. We are assessing the impact that this guidance may have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which is included in the Codification under ASC 606, “Revenue From Contracts With Customers” (“ASC 606”). This guidance requires the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected in exchange for those goods or services. In May 2016, the FASB issued ASU No. 2016-12, “Narrow Scope Improvements and Practical Expedients” (“ASU 2016-12”), which provides for improvements to the guidance on collectability, noncash consideration and completed contracts, and provides a practical expedient for contract modifications upon adoption of the updated guidance under ASC 606. Originally, the updated guidance under ASC 606 was to become effective for our interim and annual reporting periods beginning January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the updated guidance under ASC 606 by one year. Therefore, ASU 2014-09 and ASU 2016-12 will become effective for our interim and annual reporting periods beginning January 1, 2018. Early adoption is permitted, but not any earlier than the original effective date. A full retrospective or a modified retrospective approach may be used for the adoption of this guidance. We are assessing the impact that this guidance may have on our consolidated financial statements.

Adoption of New Accounting Guidance. In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement Period Adjustments" ("ASU 2015-16"), which is included in the Codification under ASC 805, "Business Combinations" ("ASC 805"). This guidance simplifies the accounting for adjustments made to provisional amounts recognized in a business combination and requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts. In addition, an entity is required to present separately on the face of its financial statements or disclose in the notes to its financial statements, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016 and was applied prospectively. The adoption of ASU 2015-16 did not have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 which is included in the Codification under ASC 835, "Interest" ("ASC 835"). This guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that liability. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016 and was applied retrospectively. The adoption of ASU 2015-03 did not have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis" ("ASU 2015-02"), which is included in the Codification under ASC 810 "Consolidation" ("ASC 810"). This guidance changes the analysis that an entity must perform to determine whether it should consolidate certain types of legal entities. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016 and was applied prospectively. The adoption of ASU 2015-02 did not have a material impact on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"), which is included in the Codification under ASC 225, "Income Statement" ("ASC 225"). This guidance eliminates the concept of extraordinary items from GAAP. This guidance became effective for our interim and annual reporting periods beginning January 1, 2016 and was applied prospectively. The adoption of ASU 2015-01 did not have a material impact on our consolidated financial statements.

3. Fair Value and Credit Risk of Financial Instruments

Fair value for financial reporting is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under the accounting guidance. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Condensed Consolidated Balance Sheet as of June 30, 2016:

		Fair Value Measurements at Reporting Date Using		
Description	**As of June 30, 2016**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Other Unobservable Inputs**
Cash equivalents:				
Money market funds	$ 71,047	$ 71,047	$ 0	$ 0
Restricted cash:				
Money market funds	768	768	0	0
Collateral deposits:				
Money market funds	8,633	8,633	0	0
	$ 80,448	$ 80,448	$ 0	$ 0

The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Condensed Consolidated Balance Sheet as of December 31, 2015:

Description	As of December 31, 2015	Fair Value Measurements at Reporting Date Using (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Cash equivalents:				
Money market funds	$ 130,821	$ 130,821	$ 0	$ 0
Restricted cash:				
Money market funds	585	585	0	0
Collateral deposits:				
Money market funds	8,631	8,631	0	0
	$ 140,037	$ 140,037	$ 0	$ 0

The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Condensed Consolidated Balance Sheet as of June 30, 2015:

Description	As of June 30, 2015	Fair Value Measurements at Reporting Date Using (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Cash equivalents:				
Money market funds	$ 124,564	$ 124,564	$ 0	$ 0
Restricted cash:				
Money market funds	1,820	1,820	0	0
Collateral deposits:				
Money market funds	8,629	8,629	0	0
	$ 135,013	$ 135,013	$ 0	$ 0

We used quoted prices in active markets for identical assets as of the measurement dates to value our financial assets that were categorized as Level 1.

The carrying value for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and other current liabilities approximate fair value, because of the immediate or short-term maturity of these financial instruments. Except as described below, we did not have any financial assets or liabilities recorded at estimated fair value on a non-recurring basis on our Condensed Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 or June 30, 2015. As of June 30, 2016 and December 31, 2015, the carrying value of a building that we considered held-for-sale was approximately $2,300, and was included in Prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets. The carrying value of that building as of those dates was approximately equal to its estimated fair value, less selling costs. In the six months ended June 30, 2016, we recorded an impairment charge of approximately $543 to reduce the carrying value of another building to its estimated fair value. The estimated fair value of that building was approximately $2,600 and was included in Property and equipment, net on our Condensed Consolidated Balance Sheet as of June 30, 2016. We considered the results of independent appraisals and other available market data, which are categorized as Level 3 measurements under the accounting guidance, to determine the estimated fair value of the buildings as of June 30, 2016.

In July 2016, we classified an additional building that we own as held-for-sale. The estimated fair value, less selling costs, of this building was approximately $6,500. Because the estimated fair value, less selling costs, exceeded the carrying value of this building, we do not expect to record an impairment charge in the three months ended September 30, 2016. The building's carrying value of approximately $5,500 was included in Property and equipment, net on our Condensed Consolidated Balance Sheet as of June 30, 2016. We considered the results of independent appraisals and other available market data, which are categorized as Level 3 measurements under the accounting guidance, to determine the estimated fair value of the building.

As of June 30, 2016, the aggregate carrying value of the private education loans ("PEAKS Trust Student Loans") owned by a trust (the "PEAKS Trust") that purchased, owns and collects private education loans made under the PEAKS Private Student Loan Program (the "PEAKS Program") and the private education loans ("CUSO Student Loans") owned by an entity (the "CUSO") that purchased, owns and collects private education loans made under a private education loan program for our students (the "CUSO Program") was

$59,767 and the estimated fair value was approximately $69,000. As of December 31, 2015, the aggregate carrying value of the PEAKS Trust Student Loans and the CUSO Student Loans (collectively, the "Private Education Loans") was $70,641 and the estimated fair value was approximately $81,335. As of June 30, 2015, the aggregate carrying value of the Private Education Loans was $79,103 and the estimated fair value was approximately $89,138. The fair value of the Private Education Loans was estimated using the income approach with estimated discounted expected cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the Private Education Loans. The significant inputs used in determining the estimated fair value included the default rate, repayment rate and discount rate. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

As of June 30, 2016, the carrying value of our debt under our Financing Agreement (as defined in Note 8—Debt) was $34,231 and the estimated fair value was approximately $35,000. As of December 31, 2015, the carrying value of our debt under our Financing Agreement was $68,161 and the estimated fair value was approximately $70,000. As of June 30, 2015, the carrying value of our debt under our Financing Agreement was $91,234 and the estimated fair value was approximately $93,000. The fair value of our debt under our Financing Agreement was estimated by discounting the future cash flows using current rates for similar loans with similar characteristics and remaining maturities. We utilized inputs that were unobservable in determining the estimated fair value of our debt under the Financing Agreement. The significant input used in determining the estimated fair value was the discount rate utilized for credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

As of June 30, 2016, the carrying value of the senior debt issued by the PEAKS Trust in the initial aggregate principal amount of $300,000 (the "PEAKS Senior Debt") was $39,294 and the estimated fair value was approximately $37,000. As of December 31, 2015, the carrying value of the PEAKS Senior Debt was $50,806 and the estimated fair value was approximately $47,000. As of June 30, 2015, the carrying value of the PEAKS Senior Debt was $63,583 and the estimated fair value was approximately $62,313. The fair value of the PEAKS Senior Debt was estimated using the income approach with estimated discounted cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the PEAKS Senior Debt. The significant input used in determining the estimated fair value was the discount rate utilized for both credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

As of June 30, 2016, the carrying value of the liability that the CUSO was required to record (the "CUSO Secured Borrowing Obligation") on its balance sheet for the cash received from the owners of the CUSO (the "CUSO Participants"), which liability we now consolidate, was $105,935 and the estimated fair value was approximately $87,000. As of December 31, 2015, the carrying value of the CUSO Secured Borrowing Obligation was $115,319 and the estimated fair value was approximately $87,000. As of June 30, 2015, the carrying value of the CUSO Secured Borrowing Obligation was $112,968 and the estimated fair value was approximately $105,147. The fair value of the CUSO Secured Borrowing Obligation was estimated using the income approach with estimated discounted cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the CUSO Secured Borrowing Obligation. The significant input used in determining the estimated fair value was the discount rate utilized for both credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

Financial instruments that potentially subject us to credit risk consist primarily of accounts receivable, cash equivalents and the Private Education Loans. Our accounts receivable are comprised of a large number of individual balances owed by students whose credit profiles vary and who are located throughout the United States. Our cash equivalents generally consist of money market funds which invest in high-quality securities issued by various entities. The Private Education Loans consist of a large number of individual loans owed by borrowers, whose credit profiles vary and who are located throughout the United States.

4. Equity Compensation

The amount of stock-based compensation expense and the line items in which those amounts are included in our Condensed Consolidated Statements of Operations and the related estimated income tax benefit recognized in the periods indicated were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of educational services	$ 476	$ 703	$ 1,184	$ 1,645
Student services and administrative expenses	245	661	764	1,615
Total stock-based compensation expense	$ 721	$ 1,364	$ 1,948	$ 3,260
Income tax (benefit)	$ (278)	(525)	(750)	(1,255)

As of June 30, 2016, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately $2,900, net of estimated forfeitures, will be recognized in future periods. This expense will be recognized over the remaining service period applicable to the grantees which, on a weighted-average basis, is approximately 1.6 years.

The stock options granted, forfeited, exercised and expired in the period indicated were as follows:

	Six Months Ended June 30, 2016				
	# of Shares	Weighted Average Exercise Price	Aggregate Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding at beginning of period	1,088,208	$ 70.21	$ 76,406		
Granted	159,000	$ 3.57	$ 568		
Forfeited	(24,306)	$ 4.24	$ (103)		
Exercised	0	$ 0	$ 0		
Expired	(188,500)	$ 121.56	$ (22,914)		
Outstanding at end of period	1,034,402	$ 52.16	$ 53,957	1.7	$ 0
Exercisable at the end of period	782,564	$ 66.21	$ 51,811	1.5	$ 0

(1) The aggregate intrinsic value of the stock options was calculated by identifying those stock options that had a lower exercise price than the closing market price of our common stock on June 30, 2016 and multiplying the difference between the closing market price of our common stock and the exercise price of each of those stock options by the number of shares subject to those stock options that were outstanding or exercisable, as applicable. Since the closing market price of our common stock on June 30, 2016 was lower than the exercise price of all outstanding stock options and exercisable stock options, the aggregate intrinsic value of the stock options was zero.

The following table sets forth information regarding the stock options granted and exercised in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares subject to stock options granted	0	121,208	159,000	121,208
Weighted average grant date fair value per share	$ 0	$ 3.65	$ 2.09	$ 3.65
Shares subject to stock options exercised	0	0	0	0
Intrinsic value of stock options exercised	$ 0	$ 0	$ 0	$ 0
Proceeds received from stock options exercised	$ 0	$ 0	$ 0	$ 0
Tax benefits realized from stock options exercised	$ 0	$ 0	$ 0	$ 0

The intrinsic value of a stock option is the difference between the fair market value of the stock and the option exercise price.

The fair value of each stock option grant was estimated on the date of grant using the following assumptions in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Risk-free interest rates	Not applicable	1.55%	1.30%	1.55%
Expected lives (in years)	Not applicable	4.7	4.8	4.7
Volatility	Not applicable	107%	75%	107%
Dividend yield	Not applicable	None	None	None

For the three months ended June 30, 2016, the assumptions listed above were not applicable because we did not grant any stock options in that period.

The following table sets forth the number of restricted stock units ("RSUs") that were granted, forfeited and vested in the period indicated:

	Six Months Ended June 30, 2016	
	# of RSUs	Weighted Average Grant Date Fair Value
Unvested at beginning of period	793,019	$ 14.18
Granted	413,882	$ 3.55
Forfeited	(98,327)	$ 9.92
Vested	(402,347)	$ 14.50
Unvested at the end of period	706,227	$ 8.36

The total fair market value of the RSUs that vested and were settled in shares of our common stock was:

- $787 in the three months ended June 30, 2016;
- $123 in the three months ended June 30, 2015;
- $886 in the six months ended June 30, 2016; and
- $1,383 in the six months ended June 30, 2015.

5. Variable Interest Entities

Under ASC 810, an entity that holds a variable interest in a VIE and meets certain requirements would be considered to be the primary beneficiary of the VIE and required to consolidate the VIE in its consolidated financial statements. In order to be considered the primary beneficiary of a VIE, an entity must hold a variable interest in the VIE and have both:

- the power to direct the activities that most significantly impact the economic performance of the VIE; and
- the right to receive benefits from, or the obligation to absorb losses of, the VIE that could be potentially significant to the VIE.

We hold variable interests in the PEAKS Trust as a result of:

- a subordinated note issued to us by the PEAKS Trust in exchange for the portion of each private education loan disbursed to us under the PEAKS Program that we transferred to the PEAKS Trust ("Subordinated Note"); and
- our guarantee of the payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt ("PEAKS Guarantee").

We hold variable interests in the CUSO as a result of:

- a risk sharing agreement (the "CUSO RSA") that we entered into with the CUSO in connection with the CUSO Program; and
- a revolving note owed to us by the CUSO (the "Revolving Note").

Primary Beneficiary Analysis . The PEAKS Trust and the CUSO are VIEs as defined under ASC 810. To determine whether we are the primary beneficiary of the PEAKS Trust or the CUSO, we:

- assessed the risks that the VIE was designed to create and pass through to its variable interest holders;
- identified the variable interests in the VIE;
- identified the other variable interest holders and their involvement in the activities of the VIE;
- identified the activities that most significantly impact the VIE's economic performance;
- determined whether we have the power to direct those activities; and
- determined whether we have the right to receive the benefits from, or the obligation to absorb the losses of, the VIE that could potentially be significant to the VIE.

We determined that the activities of the PEAKS Trust and the CUSO that most significantly impact the economic performance of the PEAKS Trust and the CUSO involve the servicing (which includes the collection) of the PEAKS Trust Student Loans and the CUSO Student Loans. To make that determination, we analyzed various possible scenarios of student loan portfolio performance to evaluate the potential economic impact on the PEAKS Trust and the CUSO. In our analysis, we made what we believe are reasonable assumptions based on historical data for the following key variables:

- the composition of the credit profiles of the borrowers;

- the interest rates and fees charged on the loans;
- the default rates and the timing of defaults associated with similar types of loans; and
- the prepayment and the speed of repayment associated with similar types of loans.

Based on our analysis, we concluded that we became the primary beneficiary of the PEAKS Trust on February 28, 2013. This was the first date that we had the power to direct the activities of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust, because we could have exercised our right to terminate the servicing agreement that governs the servicing activities of the PEAKS Trust Student Loans (the "PEAKS Servicing Agreement"), due to the failure of the entity that performs those servicing activities for the PEAKS Trust Student Loans on behalf of the PEAKS Trust to meet certain performance criteria specified in the PEAKS Servicing Agreement. We have not, however, exercised our right to terminate the PEAKS Servicing Agreement.

As a result of our primary beneficiary conclusion, we consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013 (the "PEAKS Consolidation"). Prior to February 28, 2013, the PEAKS Trust was not required to be consolidated in our consolidated financial statements, because we concluded that we were not the primary beneficiary of the PEAKS Trust prior to that time. The PEAKS Trust is discussed in more detail below.

Our consolidated financial statements for periods as of and after February 28, 2013 include the PEAKS Trust, because we were considered to have control over the PEAKS Trust under ASC 810, as a result of our substantive unilateral right to terminate the PEAKS Servicing Agreement. We do not, however, actively manage the operations of the PEAKS Trust, and the assets of the consolidated PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Our obligations under the PEAKS Guarantee remain in effect, until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. See Note 11 – Commitments and Contingencies, for a further discussion of the PEAKS Guarantee.

Based on our analysis, we concluded that we became the primary beneficiary of the CUSO on September 30, 2014. This was the first date that we determined we had the power to direct the activities of the CUSO that most significantly impact the economic performance of the CUSO, because the entity that performs the servicing activities on behalf of the CUSO (the "CUSO Program Servicer") failed to meet certain performance criteria specified in the servicing agreement that governs the servicing activities of the CUSO Student Loans (the "CUSO Servicing Agreement") on that date. The CUSO Servicing Agreement provides that in the event that the CUSO Program Servicer fails to meet certain performance criteria specified in the CUSO Servicing Agreement, and the CUSO Program Servicer does not affect a cure of that failure during a specified cure period, we would have the right to terminate the CUSO Servicing Agreement. We determined that it was not reasonably possible that the CUSO Program Servicer would be able to affect a cure during the specified cure period and, therefore, because the cure period was not substantive, we effectively had the right to terminate the CUSO Servicing Agreement as of the date that the CUSO Program Servicer failed to meet the performance criteria. We have provided notice of termination of the CUSO Servicing Agreement, however, the termination will not be effective until a successor servicer has been retained by the CUSO.

As a result of our primary beneficiary conclusion, we consolidated the CUSO in our consolidated financial statements beginning on September 30, 2014 (the "CUSO Consolidation"). Prior to September 30, 2014, the CUSO was not required to be consolidated in our consolidated financial statements, because we concluded that we were not the primary beneficiary of the CUSO prior to that time. The CUSO is discussed in more detail below.

Our consolidated financial statements for periods as of and after September 30, 2014 include the CUSO, because we were considered to have control over the CUSO under ASC 810, as a result of our substantive right to terminate the CUSO Servicing Agreement after a cure period that was not substantive. We do not, however, actively manage the operations of the CUSO, and the assets of the consolidated CUSO can only be used to satisfy the obligations of the CUSO. Our obligations under the CUSO RSA remain in effect, until all CUSO Student Loans are paid in full. See Note 11—Commitments and Contingencies, for a further discussion of the CUSO RSA.

PEAKS Program. On January 20, 2010, we entered into agreements with unrelated third parties to establish the PEAKS Program, which was a private education loan program for our students. We entered into the PEAKS Program to offer our students another source of private education loans that they could use to help pay their education costs owed to us and to supplement the limited amount of private education loans available to our students under other private education loan programs, including the CUSO Program. Under the PEAKS Program, our students had access to a greater amount of private education loans, which resulted in a reduction in the amount of internal financing that we provided to our students in 2010 and 2011. No new private education loans were or will be originated under the PEAKS Program after July 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through March 2012.

Under the PEAKS Program, an unrelated lender originated private education loans to our eligible students and, subsequently, sold those loans to the PEAKS Trust. The PEAKS Trust issued the PEAKS Senior Debt to investors. The lender disbursed the proceeds of the private education loans to us for application to the students' account balances with us that represented their unpaid education costs. We transferred a portion of the amount of each private education loan disbursed to us under the PEAKS Program to the PEAKS Trust in exchange for the Subordinated Note.

The Subordinated Note issued by the PEAKS Trust to us does not bear interest and matures in March 2026. Principal is due on the Subordinated Note following:

- the repayment of the PEAKS Senior Debt;
- the repayment of fees and expenses of the PEAKS Trust; and
- the reimbursement of the amounts of any payments made by us under the PEAKS Guarantee.

The carrying value of the Subordinated Note was eliminated from our consolidated balance sheet when we consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. In the three months ended December 31, 2012, we determined it was probable that we would not collect the carrying value of the Subordinated Note and, therefore, recorded an impairment charge for the total carrying value of the Subordinated Note.

The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase the private education loans made by the lender to our students. The assets of the PEAKS Trust (which include, among other assets, the PEAKS Trust Student Loans) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt and the Subordinated Note.

Assets and Liabilities of the PEAKS Trust. We concluded that we became the primary beneficiary of the PEAKS Trust on February 28, 2013 and, therefore, were required to consolidate the PEAKS Trust in our consolidated financial statements. The following table sets forth the carrying value of assets and liabilities of the PEAKS Trust that were included on our Condensed Consolidated Balance Sheets as of the dates indicated:

	As of		
	June 30, 2016	**December 31, 2015**	**June 30, 2015**
Assets			
Restricted cash	$ 1,517	$ 1,462	$ 1,629
Current portion of PEAKS Trust student loans	5,362	5,746	6,250
PEAKS Trust student loans, excluding current portion, less allowance for loan losses of $13,892, $21,816 and $36,921	38,944	45,987	50,937
Total assets	$45,823	$ 53,195	$58,816
Liabilities			
Current portion of PEAKS Trust senior debt	$12,812	$ 20,105	$23,068
Other current liabilities	0	191	158
PEAKS Trust senior debt, excluding current portion	26,482	30,701	40,515
Total liabilities	$39,294	$ 50,997	$63,741

The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust. Payment of the administrative fees and expenses of the PEAKS Trust and the principal and interest owed on the PEAKS Senior Debt are guaranteed by us under the PEAKS Guarantee.

Revenue and Expenses of the PEAKS Trust. The following table sets forth the revenue and expenses of the PEAKS Trust, which were included in our Condensed Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenue	$ 1,862	$ 2,246	$ 3,864	$ 4,659
Student services and administrative expenses	508	489	1,003	1,030
Provision for private education loan losses	1,063	4,615	2,546	5,418
Interest expense	1,422	2,826	3,180	6,085
(Loss) before provision for income taxes	$ (1,131)	$ (5,684)	$ (2,865)	$ (7,874)

The revenue of the PEAKS Trust consists of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield on the PEAKS Trust Student Loans. The servicing, administrative and other fees incurred by the PEAKS Trust are included in Student services and administrative expenses in our Condensed Consolidated Statements of Operations. The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses related to the PEAKS Trust Student Loans represents the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the PEAKS Trust Student Loans, discounted by the loan pool's effective interest rate as of the end of the reporting period. Interest expense of the PEAKS Trust represents interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt.

PEAKS Guarantee . Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt (the "Asset/Liability Ratio"). Our guarantee obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. At such time, we will be entitled to repayment of the amounts that we paid under the PEAKS Guarantee, to the extent of available funds remaining in the PEAKS Trust. See Note 11 – Commitments and Contingencies, for a further discussion of our obligations to make guarantee payments pursuant to the PEAKS Guarantee.

The following table sets forth the PEAKS Guarantee payments that were made in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PEAKS Guarantee	$ 2,659	$ 6,820	$ 7,193	$ 20,457

CUSO Program. On February 20, 2009, we entered into agreements with the CUSO to create the CUSO Program. Under the CUSO Program, an unrelated lender originated private education loans to our eligible students and, subsequently, sold those loans to the CUSO. The CUSO purchased the private education loans from the lender utilizing funds received from its owners in exchange for participation interests in the private education loans acquired by the CUSO. The lender disbursed the proceeds of the private education loans to us for application to the students' account balances with us that represented their unpaid education costs. No new private education loans were or will be originated under the CUSO Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through June 2012.

Assets and Liabilities of the CUSO . We concluded that we became the primary beneficiary of the CUSO on September 30, 2014 and, therefore, were required to consolidate the CUSO in our consolidated financial statements. In accordance with ASC 810, the consolidation of the CUSO was treated as an acquisition of assets and liabilities and, therefore, the assets and liabilities of the CUSO were included in our consolidated financial statements at their fair value as of September 30, 2014.

We recorded the CUSO Secured Borrowing Obligation at the time of the CUSO Consolidation. The CUSO Secured Borrowing Obligation represents the estimated amount that the CUSO owes to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the CUSO RSA.

In accordance with ASC 810, we included the CUSO Secured Borrowing Obligation on our consolidated balance sheet at its fair value as of September 30, 2014, the date of the CUSO Consolidation. The difference between the estimated fair value of the CUSO Secured Borrowing Obligation and the amount expected to be paid by the CUSO to the CUSO Participants was recorded as an accrued discount on our consolidated balance sheet at the date of the CUSO Consolidation. The accrued discount is being recognized in interest expense using the interest method based on the actual and projected cash flows, over the expected life of the CUSO Secured Borrowing Obligation.

The expected life of the CUSO Secured Borrowing Obligation is an estimate of the period of time over which payments are expected to be made by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans. The period of time over which payments are expected to be made by the CUSO to the CUSO Participants is based upon when the CUSO Student Loans enter a repayment status and the period of time they remain in a repayment status. Since all of the CUSO Student Loans have not entered repayment, and those loans that have entered a repayment status may be granted forbearances or deferments, the period of time over which payments are expected to be made to the CUSO Participants is an estimate. The assumptions used to estimate the expected life of the CUSO Secured Borrowing Obligation are reviewed periodically and updated accordingly, which may result in an adjustment to the expected life of the CUSO Secured Borrowing Obligation and the related recognized interest expense.

The following table sets forth the carrying values of assets and liabilities of the CUSO that were included on our Condensed Consolidated Balance Sheets as of the dates indicated:

	As of		
	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Restricted cash	$ 3,123	$ 3,968	$ 3,487
Current portion of CUSO student loans	2,445	2,734	3,129
CUSO student loans, excluding current portion, less allowance for loan losses of $2,741, $1,796 and $1,178	13,016	16,174	18,787
Other assets	351	257	198
Total assets	$ 18,935	$ 23,133	$ 25,601
Liabilities			
Current portion of CUSO secured borrowing obligation	$ 17,706	$ 23,591	$ 19,750
Other current liabilities	362	154	302
CUSO secured borrowing obligation, excluding current portion	88,229	91,728	93,218
Total liabilities	$106,297	$ 115,473	$113,270

The assets of the CUSO can only be used to satisfy the obligations of the CUSO. Other liabilities of the CUSO of $1,879 that were reported as of June 30, 2015 have been reclassified and included in the line item CUSO secured borrowing obligation, excluding current portion, to conform with the current year presentation.

Revenue and Expenses of the CUSO . The following table sets forth the revenue and expenses of the CUSO, which were included in our Condensed Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$ 1,023	$ 1,185	$ 2,105	$ 2,249
Student services and administrative expenses	419	483	779	879
Provision (benefit) for private education loan losses	106	(1,302)	501	(861)
Interest expense	3,049	3,573	6,216	7,214
(Loss) before provision for income taxes	$ (2,551)	$ (1,569)	$ (5,391)	$ (4,983)

The revenue of the CUSO consists of interest income on the CUSO Student Loans, which is the accretion of the accretable yield on the CUSO Student Loans, and an administrative fee paid by the CUSO Participants to the CUSO on a monthly basis. The servicing, administrative and other fees incurred by the CUSO are included in Student services and administrative expenses in our Condensed Consolidated Statements of Operations. The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period, offset by recoveries received from private education loans that were charged off prior to the CUSO Consolidation. The allowance for loan losses represents the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the CUSO Student Loans, discounted by the loan pool's effective interest rate as of the end of the reporting period. Interest expense of the CUSO represents interest expense on the CUSO Secured Borrowing Obligation, which includes the contractual interest obligation on the CUSO Student Loans and the accretion of the discount on the CUSO Secured Borrowing Obligation.

CUSO RSA . In connection with the CUSO Program, we entered into the CUSO RSA with the CUSO. Under the CUSO RSA, we guarantee the repayment of any private education loans that are charged off above a certain percentage of the private education loans made under the CUSO Program, based on the annual dollar volume. Under the CUSO RSA, we have an obligation to make the monthly payments due and unpaid on those private education loans that have been charged off above a certain percentage ("Regular Payments"). Instead of making Regular Payments, however, we may elect to discharge our obligations to make Regular Payments on specified charged-off private education loans by:

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

(collectively, “Discharge Payments”). See Note 11 – Commitments and Contingencies, for a further discussion of our obligations to make guarantee payments pursuant to the CUSO RSA.

Pursuant to the CUSO RSA, we are entitled to all amounts that the CUSO recovers from loans in a particular loan pool made under the CUSO Program that have been charged off, until all payments that we made under the CUSO RSA with respect to that loan pool have been repaid to us by the CUSO. We have the right to offset payment amounts that we owe under the CUSO RSA by the amount of recoveries from charged-off loans made under the CUSO Program that are owed, but have not been paid, to us. We exercised this offset right in the three and six months ended June 30, 2016 and 2015.

In June 2015, we entered into an amendment to the CUSO RSA that, among other things, allowed us to defer the payments due in June 2015 through December 2015 under the CUSO RSA to January 2016 (the “Deferred Payment”). See Note 11 – Commitments and Contingencies for a discussion of this amendment. In accordance with the provisions of this amendment, we deferred the payments due in June 2015 through December 2015 under the CUSO RSA, and we utilized the amount of the recoveries of charged-off loans received by the CUSO between June 2015 and December 2015 that were due but were not paid to us to offset against amounts that we owed under the CUSO RSA in January 2016.

The following table sets forth the payments that we made to the CUSO related to our guarantee obligations under the CUSO RSA in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Regular payments	$ 2,653(1)	$ 1,560(2)	$ 5,250(3)	$ 3,840(4)
Deferred payment	0	0	5,331(5)	0
Discharge payments	0	6,544	0	9,253
Total	$ 2,653	$ 8,104	$ 10,581	$ 13,093

(1) This amount is net of $351 of recoveries from charged-off loans owed to us that we offset against amounts we owed under the CUSO RSA.
(2) This amount is net of $231 of recoveries from charged-off loans owed to us that we offset against amounts we owed under the CUSO RSA.
(3) This amount is net of $645 of recoveries from charged-off loans owed to us that we offset against amounts we owed under the CUSO RSA.
(4) This amount is net of $521 of recoveries from charged-off loans owed to us that we offset against amounts we owed under the CUSO RSA.
(5) This amount is net of $761 of recoveries from charged-off loans received by the CUSO from June 8, 2015 through December 31, 2015 that were not paid to us that we offset against amounts owed by us under the CUSO RSA in January 2016.

We made advances to the CUSO under the Revolving Note in years prior to 2012. We made the advances so that the CUSO could use those funds primarily to purchase additional private education loans made under the CUSO Program. The period of time during which we could make additional advances under the Revolving Note ended on January 1, 2014. Certain of the assets of the CUSO serve as collateral for the Revolving Note. The Revolving Note bears interest, is subject to customary terms and conditions and is currently due and payable in full. In 2013, we also offset $8,472 owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note, instead of making additional payments in that amount. We did not offset any amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note, instead of making additional payments in those amounts, in the three months ended June 30, 2016 or 2015. See Note 11 – Commitments and Contingencies, for a further discussion of the offsets and CUSO RSA.

The amount owed to us under the Revolving Note, excluding those offsets, was approximately $8,400 as of June 30, 2016, $8,300 as of December 31, 2015, and $8,200 as of June 30, 2015. The amount of the Revolving Note was eliminated from our financial statements as a result of the CUSO Consolidation.

6. Private Education Loans

We concluded that we were required to consolidate the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013 and to consolidate the CUSO in our consolidated financial statements beginning on September 30, 2014. See Note 5 – Variable Interest Entities, for a further discussion of the consolidation of the PEAKS Trust and CUSO (the “Consolidated VIEs”). As a result, the assets and liabilities of the Consolidated VIEs were included on our Condensed Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 and June 30, 2015.

The aggregate carrying amount of the Private Education Loans included under the Private education loan line items on our Condensed Consolidated Balance Sheets as of June 30, 2016 was $59,767, as of December 31, 2015 was $70,641 and as of June 30, 2015 was $79,103. The outstanding principal balance of the Private Education Loans, including accrued interest, was approximately $90,806 as of June 30, 2016, $114,346 as of December 31, 2015 and $144,588 as of June 30, 2015.

Initial Measurement . A significant number of the Private Education Loans were determined to be credit impaired upon consolidation. Loans determined to be credit impaired upon consolidation or acquisition ("Purchased Credit Impaired Loans" or "PCI Loans"), are initially measured at fair value in accordance with ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). A loan is considered a PCI Loan if it has evidence of deteriorated credit quality following the loan's origination date. As a result, at the date of consolidation or acquisition, it is probable that all contractually required payments under a PCI Loan will not be collected.

The Private Education Loans that did not individually have evidence of deteriorated credit quality at the time of consolidation were also initially measured at fair value and are accounted for in accordance with ASC 310-30. We believe that following the guidance of ASC 310-30 by analogy with respect to those loans provides the most reasonable presentation of the value of those loans, primarily due to:

- the evidence of deteriorated credit quality of a significant number of the Private Education Loans; and
- the probability that all contractually required payments with respect to those loans will not be collected.

All of the Private Education Loans are, therefore, considered to be, and reported as, PCI Loans.

This accounting treatment is consistent with the American Institute of Certified Public Accountants' (the "AICPA") December 18, 2009 confirmation letter (the "Confirmation Letter'), in which the AICPA summarized the SEC staff's view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. In this letter, the AICPA states that it understands that the SEC staff will not object to an accounting policy based on contractual or expected cash flow. We believe that following ASC 310-30 by analogy with respect to the Private Education Loans that did not individually have evidence of deteriorated credit quality at the time of consolidation is an appropriate application of the accounting guidance to determine the initial measurement of the value of those loans.

Aggregation of Loans . PCI Loans recognized upon consolidation or acquisition in the same fiscal quarter may be aggregated into one or more pools, provided that the PCI Loans in each pool have common risk characteristics. The Private Education Loans were considered to be PCI Loans upon consolidation. As of the date of the PEAKS Consolidation or the CUSO Consolidation, as applicable, we aggregated the PEAKS Trust Student Loans into 24 separate pools of loans and the CUSO Student Loans into 48 separate pools of loans, based on common risk characteristics of the loans, which included:

- the fiscal quarter in which the Private Education Loan was purchased by the PEAKS Trust or the CUSO; and
- the consumer credit score of the borrower.

PCI Loans that do not have evidence of deteriorated credit quality are not aggregated in the same pools with PCI Loans that have evidence of deteriorated credit quality. The same aggregation criteria, however, were used to determine those loan pools. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Accretable Yield . The Private Education Loans were recorded at their estimated fair value upon consolidation. The estimated fair value of the PEAKS Trust Student Loans as of February 28, 2013, and the CUSO Student Loans as of September 30, 2014, was determined using an expected cash flow methodology. Projected default rates and forbearances were considered in applying the estimated cash flow methodology. Prepayments of loans were not considered when estimating the expected cash flows, because, historically, few Private Education Loans have been prepaid. No allowance for loan loss was established as of the date of consolidation of the PEAKS Trust and the CUSO, because all of the Private Education Loans were recorded at fair value and future credit losses are considered in the estimate of fair value.

The excess of any cash flows expected to be collected with respect to a loan pool of the Private Education Loans over the carrying value of the loan pool is referred to as the accretable yield. The accretable yield is not reported on our Condensed Consolidated Balance Sheets, but it is accreted and included as interest income using the effective interest method, which is at a level rate of return over the remaining estimated life of the loan pool.

The following tables set forth information regarding aggregate changes in accretable yield of the loan pools of the PEAKS Trust Student Loans, in total, and for those loans pursuant to which ASC 310-30 was applied by analogy, for the periods indicated:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Total	ASC 310-30 Applied By Analogy	Total	ASC 310-30 Applied By Analogy
Balance at beginning of period	$31,652	$ 17,358	$47,898	$ 28,682
Accretion	(1,862)	(942)	(2,246)	(1,276)
Reclassification from nonaccretable difference and changes in expected cash flows	(1,846)	(1,239)	(5,450)	(3,173)
Balance at end of period	$27,944	$ 15,177	$40,202	$ 24,233

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Total	ASC 310-30 Applied By Analogy	Total	ASC 310-30 Applied By Analogy
Balance at beginning of period	$34,984	$ 19,313	$51,819	$ 32,654
Accretion	(3,864)	(1,964)	(4,659)	(2,707)
Reclassification from nonaccretable difference and changes in expected cash flows	(3,176)	(2,172)	(6,958)	(5,714)
Balance at end of period	$27,944	$ 15,177	$40,202	$ 24,233

The following tables set forth information regarding aggregate changes in accretable yield of the loan pools of the CUSO Student Loans, in total, and for those loans pursuant to which ASC 310-30 was applied by analogy, for the periods indicated:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Total	ASC 310-30 Applied By Analogy	Total	ASC 310-30 Applied By Analogy
Balance at beginning of period	$11,646	$ 6,885	$11,120	$ 5,777
Accretion	(663)	(398)	(702)	(394)
Reclassification from nonaccretable difference and changes in expected cash flows	(486)	(360)	3,348	2,832
Balance at end of period	$10,497	$ 6,127	$13,766	$ 8,215

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Total	ASC 310-30 Applied By Analogy	Total	ASC 310-30 Applied By Analogy
Balance at beginning of period	$12,793	$ 7,611	$11,728	$ 5,857
Accretion	(1,385)	(830)	(1,370)	(740)
Reclassification from nonaccretable difference and changes in expected cash flows	(911)	(654)	3,408	3,098
Balance at end of period	$10,497	$ 6,127	$13,766	$ 8,215

Allowance for Private Education Loan Losses . On a quarterly basis, subsequent to the PEAKS Consolidation and the CUSO Consolidation, as applicable, we estimate the principal and interest expected to be collected over the remaining life of each loan pool. These estimates include assumptions regarding default rates, forbearances and other factors that reflect then-current market conditions. Prepayments of loans were not considered when estimating the expected cash flows, because, historically, few Private Education Loans have been prepaid.

If a decrease in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be less than the expected cash flows at the end of the previous fiscal quarter, we would record the impairment as:

- a provision for private education loan losses in our Condensed Consolidated Statement of Operations; and
- an increase in the allowance for loan losses on our Condensed Consolidated Balance Sheets.

The provision for private education loan losses represents the increase in the allowance for loan losses that occurred during the period. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool, discounted by the loan pool's effective interest rate at the end of the previous fiscal quarter. If a significant increase in the expected cash flows of a loan pool is probable and would cause the expected cash flows to be greater than the expected cash flows at the end of the previous fiscal quarter, we would:

- first reverse any allowance for loan losses with respect to that loan pool that was previously recorded on our Condensed Consolidated Balance Sheets, up to the amount of that allowance; and
- record any remaining increase prospectively as a yield adjustment over the remaining estimated lives of the loans in the loan pool.

The following table sets forth information regarding changes in the allowance for loan losses of the loan pools of the PEAKS Trust Student Loans in the aggregate in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 17,122	$ 39,596	$ 21,816	$ 42,353
Loans charged off	(5,059)	(7,898)	(11,966)	(11,959)
Recoveries from charged off loans	766	608	1,496	1,109
Provision for loan losses	1,063	4,615	2,546	5,418
Balance at end of period	$ 13,892	$ 36,921	$ 13,892	$ 36,921

The following table sets forth information regarding changes in the allowance for loan losses of the loan pools of the CUSO Student Loans in the aggregate in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 2,412	$ 2,480	$ 1,796	$ 2,039
Loans charged off	0	0	0	0
Recoveries from charged off loans	0	0	0	0
Provision (benefit) for loan losses	329(1)	(1,302)	945(2)	(861)
Balance at end of period	$ 2,741	$ 1,178	$ 2,741	$ 1,178

(1) The provision for private education loan losses shown on our Condensed Consolidated Statements of Operations for the three months ended June 30, 2016 was reduced by $223 for recoveries from CUSO Student Loans that were not recognized on our consolidated balance sheet at the time of the CUSO Consolidation.

(2) The provision for private education loan losses shown on our Condensed Consolidated Statements of Operations for the six months ended June 30, 2016 was reduced by $444 for recoveries from CUSO Student Loans that were not recognized on our consolidated balance sheet at the time of the CUSO Consolidation.

Adjustments to the interest income of a loan pool are recognized prospectively, if those adjustments are due to:

- changes in variable interest rates; or
- any other changes in the timing of the expected cash flows of the loan pools.

Loan Modifications and Charge Offs. Modifications were made to PCI Loans in the three and six months ended June 30, 2016 and 2015 and were primarily due to forbearances granted with respect to the payment of those loans. We consider the impact of any modifications made to PCI Loans as part of our quarterly assessment of whether:

- a probable and significant change in the expected cash flows of the PCI Loans has occurred; and
- the loans should continue to be accounted for and reported as PCI loans.

In evaluating the impact of modifications made to PCI Loans on the expected cash flows of those loans, we consider the effect of any foregone interest and the potential for future default. These default estimates are used to calculate expected credit losses with respect to each loan pool. In developing these probabilities of default estimates, we considered the relationship between the credit quality characteristics of the loans in the loan pool and certain assumptions based on the performance history of the Private Education Loans and industry data related to the severity and recovery lag of defaults applicable to private education loans.

Table of Contents

The charge off of a PCI Loan results in the removal of that loan from the underlying PCI Loan pool and reduces the loan pool discount. If the discount for principal losses for a particular PCI Loan pool has been fully depleted, the charge off of a PCI Loan will reduce the PCI Loan pool's allowance for loan losses. Removal of a PCI Loan from the underlying PCI Loan Pool does not change the effective yield of the PCI Loan Pool.

7. Goodwill and Intangibles

We recognized goodwill and certain other intangible assets on our consolidated balance sheet as a result of the acquisition of:

- certain assets and liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. on January 31, 2014;
- the membership interests of Cable Holdings, LLC on August 1, 2013; and
- substantially all the assets and certain liabilities of Daniel Webster College on June 10, 2009.

The acquired intangible assets consist of certain identifiable intangible assets that are amortized over the asset's estimated life, and indefinite-lived intangible assets, including goodwill. Goodwill represents the excess of the consideration paid over the estimated fair value of identifiable net assets acquired.

The following tables set forth the carrying value of our acquired intangible assets that were included in Other assets on our Condensed Consolidated Balance Sheets as of the dates indicated:

	As of June 30, 2016			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Amortization Period (months)
Amortizable intangibles assets:				
Customer relationships	$ 2,500	$ (1,328)	$ 1,172	60
Non-compete agreements	1,120	(616)	504	60
Training materials	440	(367)	73	42
Accreditation	210	(210)	0	84
	$ 4,270	$ (2,521)	$ 1,749	

	As of December 31, 2015			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Amortization Period (months)
Amortizable intangibles assets:				
Customer relationships	$ 2,500	$ (1,078)	$ 1,422	60
Non-compete agreements	1,120	(504)	616	60
Training materials	440	(304)	136	42
Accreditation	210	(195)	15	84
	$ 4,270	$ (2,081)	$ 2,189	

	As of June 30, 2015			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Amortization Period (months)
Amortizable intangibles assets:				
Customer relationships	$ 2,500	$ (828)	$ 1,672	60
Non-compete agreements	1,120	(392)	728	60
Training materials	440	(241)	199	42
Accreditation	210	(180)	30	84
	$ 4,270	$ (1,641)	$ 2,629	

All amortizable intangible assets are being amortized on a straight-line basis. Amortization expense for amortized intangible assets was:

- $220 in the three months ended June 30, 2016;
- $219 in the three months ended June 30, 2015;
- $440 in the six months ended June 30, 2016; and
- $440 in the six months ended June 30, 2015.

The following table sets forth our estimate of the amortization expense for our amortizable intangible assets in each of the four years, 2016 through 2019:

Fiscal Year Ending December 31,	Estimated Amortization Expense
2016	$ 865
2017	734
2018	562
2019	28
	$ 2,189

The following tables set forth the carrying value of our indefinite-lived intangible assets that were included in Other assets on our Condensed Consolidated Balance Sheets as of the dates indicated.

	As of June 30, 2016		
	Gross Carrying Value	Accumulated Impairment Loss	Net Carrying Value
Indefinite-lived intangible assets:			
Goodwill	$ 7,247	$ (7,247)	$ 0
Trademark	660	(410)	250
	$ 7,907	$ (7,657)	$ 250

	As of December 31, 2015		
	Gross Carrying Value	Accumulated Impairment Loss	Net Carrying Value
Indefinite-lived intangible assets:			
Goodwill	$ 7,247	$ (7,247)	$ 0
Trademark	660	(410)	250
	$ 7,907	$ (7,657)	$ 250

	As of June 30, 2015		
	Gross Carrying Value	Accumulated Impairment Loss	Net Carrying Value
Indefinite-lived intangible assets:			
Goodwill	$ 7,290	$ (2,044)	$ 5,246
Trademark	660	(410)	250
	$ 7,950	$ (2,454)	$ 5,496

Indefinite-lived intangible assets include trademarks and goodwill, which are not amortized, since there are no legal, regulatory, contractual, economic or other factors that limit the useful life of those intangible assets by us.

Intangible assets that are not subject to amortization are required to be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. We perform our impairment evaluation annually, during the fourth quarter, or more frequently if facts and circumstances warrant. All of our goodwill relates to one reporting unit, which is defined as one level below an operating segment.

In addition to our annual impairment test, we consider certain triggering events when evaluating whether an interim impairment analysis is warranted. Among these is a significant long-term decrease in our market capitalization based on events specific to our operations. Deteriorating operating results and current period and projected future operating results that negatively differ from the operating plans used in the most recent impairment analysis are also triggering events that could be cause for an interim impairment review. In our analysis of triggering events we also consider changes in the accreditation, regulatory or legal environment; increased competition; innovation changes and changes in the market acceptance of our educational programs and the graduates of those programs, among other factors. We concluded that no triggering event had occurred during the three month period ended June 30, 2016 or June 30, 2015.

The assumptions and estimates underlying the fair value calculations used in our annual impairment test are uncertain by their nature and can vary significantly from actual results. Therefore, as circumstances and assumptions change, we may be required to recognize additional impairment charges for indefinite-lived intangible assets in future periods.

8. Debt

As of June 30, 2016, our Condensed Consolidated Balance Sheet included: (i) outstanding Term Loan (as defined below) borrowings under the Financing Agreement, as described further below under "— *Term Loans,* " (ii) the PEAKS Senior Debt issued by the PEAKS Trust, which was consolidated in our consolidated financial statements beginning February 28, 2013, as described further below under "— *PEAKS Trust Senior Debt,"* and (iii) the CUSO Secured Borrowing Obligation of the CUSO, which was consolidated in our consolidated financial statements beginning September 30, 2014, as described further in Note 5 – Variable Interest Entities.

Term Loans. On December 4, 2014, we and certain of our subsidiaries entered into a financing agreement (the "Original Financing Agreement") with Cerberus Business Finance, LLC ("Cerberus"), as administrative agent and collateral agent, and the lenders party thereto. Under the Original Financing Agreement, we borrowed $100,000 aggregate principal amount of senior secured term loans (the "Term Loans").

On December 23, 2014, we entered into Amendment No. 1 to Financing Agreement ("Amendment No. 1"), on March 17, 2015, we entered into Amendment No. 2 to Financing Agreement ("Amendment No. 2"), on May 26, 2015, we entered into a Limited Consent to Financing Agreement (the "FA Consent"), on September 18, 2015, we entered into Amendment No. 3 to Financing Agreement ("Amendment No. 3"), on December 31, 2015, we entered into Amendment No. 4 to Financing Agreement ("Amendment No. 4") and on March 10, 2016, we entered into a Limited Waiver (the "Waiver"). The Original Financing Agreement, as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4 and including the FA Consent and the Waiver, is referred to herein as the "Financing Agreement."

Pursuant to the Waiver, the agents and the lenders under the Financing Agreement agreed to waive any default or event of default that may have occurred and is continuing, or may occur, under the Financing Agreement or related loan documents as a result of the restatement of our condensed consolidated financial statements for each of the fiscal quarters ended March 31, 2014, June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, and our consolidated financial statements for the fiscal year ended December 31, 2014 (the "Restatements"), as long as we delivered to the agents and lenders our restated financial statements by March 31, 2016. We delivered our restated financial statements to the agents and lenders by March 31, 2016.

A portion of the proceeds of the Term Loans, as well as other funds, were used for payment of fees in connection with the Financing Agreement. We paid a one-time commitment fee of $3,000 in the fourth quarter of 2014 in connection with the Financing Agreement. The commitment fee and other costs paid to, or on behalf of, the lender were recorded as debt discount on our Consolidated Balance Sheets.

The following table sets forth the outstanding principal balance, debt issuance costs, debt discount and carrying value of the Financing Agreement as of the dates indicated:

	As of		
	June 30, 2016	**December 31, 2015**	**June 30, 2015**
Outstanding principal balance	$34,681	$ 69,681	$95,000
Debt issuance costs	(106)	(360)	(891)
Debt discount	(344)	(1,160)	(2,875)
Carrying value	$34,231	$ 68,161	$91,234

The outstanding principal balance under the Financing Agreement is expected to be repaid by us as set forth in the following table:

Fiscal Quarter Ending	Scheduled Payments
September 30, 2016	$ 15,500
December 31, 2016	19,181
Total	$ 34,681

The Financing Agreement provides for mandatory prepayment of outstanding principal in an amount equal to 50% of Excess Cash Flow (as defined in the Financing Agreement) calculated based on our cash flows for the fiscal years ended December 31, 2015 and 2016 or, in the case of 2015, at least $9,000. Any mandatory prepayment amounts due under this provision are payable within 90 days of December 31. Because our Excess Cash Flow for the fiscal year ended December 31, 2015 was less than the minimum required payment pursuant to the Financing Agreement, we made a mandatory prepayment of $9,000 under the Excess Cash Flow provision in March 2016.

The Term Loans were scheduled to mature on December 4, 2017. Assuming the required principal payments are made in accordance with the repayment schedule for the remainder of 2016, however, the outstanding balance of the Term Loans is expected to be $0 as of December 31, 2016. Based on these repayment expectations, we have classified the entire carrying value of the Term Loans as a current liability on our June 30, 2016 Condensed Consolidated Balance Sheet.

The Financing Agreement provides that we must pay a premium on any prepayment of outstanding principal ("Premium Payment") that we make during the first two years of the Financing Agreement that is not specifically required under the mandatory prepayment provision. We did not make any Premium Payments in 2015. The Premium Payment for any such prepayment of principal is 1.0% of the amount of any prepayment we make from December 5, 2015 through December 4, 2016. We do not expect to make any Premium Payments in 2016.

The Term Loans bear interest, at our option, at:

- the higher of (a) the London Interbank Offered Rate ("LIBOR") and (b) 1.00%, plus a margin of 8.50%; or
- the highest of (a) 2.00%, (b) the federal funds rate plus 0.50%, (c) LIBOR plus 1.00% and (d) the U.S. Prime Rate, plus a margin of 8.00%.

The effective interest rate on our borrowings under the Financing Agreement was approximately:

- 14.50% per annum in the three months ended June 30, 2016;
- 9.91% per annum in the three months ended June 30, 2015;
- 14.30 % per annum in the six months ended June 30, 2016; and
- 9.91% per annum in the six months ended June 30, 2015.

The following table sets forth the total amount of interest expense and fees (including amortization of debt issuance costs and accretion of debt discount) that we recognized on our borrowings under the Financing Agreement in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense and fees	$ 1,659	$ 3,472	$ 3,833	$ 6,839

The Term Loans are guaranteed by certain of our subsidiaries (the "Guarantors" and together with us, the "Loan Parties") and are secured, subject to certain agreed upon exceptions, by: (i) a first-priority lien on and perfected security interest in substantially all the Loan Parties' assets, including a pledge of the equity of the Guarantors and our other subsidiaries, (ii) a mortgage on the Loan Parties' owned real estate, and (iii) control agreements on certain of the Loan Parties' deposit accounts.

The Financing Agreement contains certain affirmative and negative covenants, including restrictions on the Loan Parties' ability to incur debt and liens, make investments, dispose of assets, pay dividends and make prepayments on existing indebtedness, in each case subject to customary exceptions.

The Financing Agreement requires us to maintain compliance with a Leverage Ratio (as defined in the Financing Agreement) and a Fixed Charge Coverage Ratio (as defined in the Financing Agreement), as well as with certain educational regulatory measurements. Compliance with the Leverage Ratio and the Fixed Charge Coverage Ratio is determined on a quarterly basis, covering certain prior periods as described in the Financing Agreement.

The educational regulatory measurements are calculated over different time periods, based on statutory guidelines. The educational regulatory measurements are set forth in the Financing Agreement, and include the following tests:

- a minimum composite score of our equity, primary reserve and net income ratios;
- our institutions' loan cohort default rates under the programs under Title IV ("Title IV Programs") of the Higher Education Act of 1965, as amended ("HEA");
- our institutions' compliance with the 90/10 Rule of the HEA;
- our compliance with the ED's gainful employment regulations; and
- our institutions' student retention rate.

The Financing Agreement contains certain events of default, including:

- the failure by us to pay any amount owed under the Financing Agreement when due;
- an inaccuracy in any material respect of the representations or warranties that the Loan Parties made in the Financing Agreement;
- a violation of any covenant that the Loan Parties made in the Financing Agreement and the related loan documents;
- a default by us under any other material indebtedness owed by us, including, without limitation, our failure to pay any amounts due under the PEAKS Guarantee or the CUSO RSA;
- a change of control of us;
- the invalidity of certain liens or guarantees granted or made by the Loan Parties in the Financing Agreement;
- the occurrence of certain regulatory events; and
- certain bankruptcy or insolvency events affecting the Loan Parties.

If an event of default occurs under the Financing Agreement, the lenders may declare all Term Loans then outstanding to be immediately due and payable in full.

PEAKS Senior Debt . In January 2010, the PEAKS Trust issued the PEAKS Senior Debt in the aggregate principal amount of $300,000 to investors. Beginning on February 28, 2013, the PEAKS Trust was consolidated in our consolidated financial statements. See Note 5– Variable Interest Entities, for a further discussion of the PEAKS Consolidation. The PEAKS Senior Debt was recorded on our consolidated balance sheet as of February 28, 2013 at its estimated fair value on that date, which was approximately $226,096. The outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was $257,533. The $31,437 difference between the estimated fair value and the outstanding principal balance of the PEAKS Senior Debt as of February 28, 2013 was recorded as a debt discount on our consolidated balance sheet and is being recognized as Interest expense in our consolidated statements of operations using the interest method, based on the actual and projected cash flows, over the expected life of the PEAKS Senior Debt.

The following table sets forth the outstanding principal balance, debt discount and carrying value of the PEAKS Senior Debt as of the dates indicated:

	As of		
	June 30, 2016	**December 31, 2015**	**June 30, 2015**
Outstanding principal balance	$44,363	$ 57,111	$71,892
Debt discount	(5,069)	(6,305)	(8,309)
Carrying value	$39,294	$ 50,806	$63,583

We recorded $12,812 as a current liability as of June 30, 2016, which represented our estimate of the amount of the carrying value of the PEAKS Senior Debt that we expect to be due in the 12 months immediately following June 30, 2016.

The PEAKS Senior Debt matures in January 2020. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. Under the terms of the PEAKS Program documents, however, amounts received on a monthly basis by the PEAKS Trust that exceed the fees and expenses of the PEAKS Trust then due and the interest then due on the PEAKS Senior Debt are to be paid to reduce the outstanding principal balance of the PEAKS Senior Debt. In the six months ended June 30, 2016, the aggregate amount of principal payments on the PEAKS Senior Debt was $12,748.

The following table sets forth the estimated principal payments on the PEAKS Senior Debt in the periods indicated:

Fiscal Year Ending December 31,	Amount
2016	$20,592
2017	$ 8,975
2018	$ 8,142
2019	$ 8,864
2020	$10,538
Total	$57,111

The PEAKS Senior Debt bears interest at a variable rate based on the LIBOR, plus a 550 basis point margin. The minimum LIBOR rate applied to the PEAKS Senior Debt cannot be less than 2.00%. The effective interest rate on the PEAKS Senior Debt was approximately:

- 13.4% per annum in the three months ended June 30, 2016;
- 16.6% per annum in the three months ended June 30, 2015;
- 14.0 % per annum in the six months ended June 30, 2016; and
- 16.4% per annum in the six months ended June 30, 2015.

The following table sets forth the total amount of contractual interest expense and discount accretion that we recognized on the PEAKS Senior Debt in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Contractual interest expense	$ 906	$ 1,461	$ 1,944	$ 3,065
Discount accretion	516	1,365	1,236	3,020
Total interest expense	$ 1,422	$ 2,826	$ 3,180	$ 6,085

The assets of the PEAKS Trust (which include, among other assets, the PEAKS Trust Student Loans) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. Payment of the PEAKS Senior Debt may be accelerated by the indenture trustee of the PEAKS Trust or by the holders of the PEAKS Senior Debt in response to certain events of default under the indenture under the PEAKS Program (the “PEAKS Indenture”), including, among other things:

- a payment default by the PEAKS Trust;
- a default in the performance or observation of the PEAKS Trust’s covenants, agreements or conditions under the PEAKS Indenture;
- a breach of our obligations under the PEAKS Guarantee; and
- certain bankruptcy events with respect to the PEAKS Trust or us.

An acceleration of the payment of the PEAKS Senior Debt would result in an acceleration of our obligation to pay the full amount of the PEAKS Senior Debt pursuant to the terms of the PEAKS Guarantee, if the PEAKS Trust was not able to make that payment (and we believe that it is unlikely that the PEAKS Trust would be able to make that payment). The acceleration of our obligation to pay the full amount of the PEAKS Senior Debt, and/or our inability to make that payment, could also result in cross-defaults under the Financing Agreement.

Asset/Liability Ratio . The PEAKS Trust must maintain a minimum required Asset/Liability Ratio. The minimum required Asset/Liability Ratio is 1.05/1.00. The applicable required Asset/Liability Ratio as of each monthly measurement date, however, is based on our compliance, as of the prior quarterly measurement date, with certain metrics specified in the PEAKS Program documents, including maximum leverage ratios and minimum liquidity amounts. If we are not in compliance with those metrics as of the end of a fiscal quarter, the required Asset/Liability Ratio increases to 1.40/1.00, until the monthly measurement date following the end of a succeeding quarter at which we are in compliance with those metrics. We were not in compliance with those metrics as of June 30, 2016. For purposes of computing the Asset/Liability Ratio, as of June 30, 2016, the amount of the assets of the PEAKS Trust was $61,062 and the amount of the liabilities was $44,363. The amounts used to calculate the Asset/Liability Ratio include, for the assets, cash and the contractual balance of the PEAKS Trust Student Loans that have not defaulted, and, for the liabilities, the amount of the contractual balance of the PEAKS Senior Debt.

If the amount of the assets of the PEAKS Trust does not equal or exceed the outstanding PEAKS Senior Debt by the applicable required Asset/Liability Ratio on a monthly measurement date, we are required to make a payment under the PEAKS Guarantee in the following month in an amount that would reduce the outstanding principal balance of the PEAKS Senior Debt to the extent necessary to cause the ratio of the assets of the PEAKS Trust to the resulting outstanding PEAKS Senior Debt to equal or exceed the applicable required Asset/Liability Ratio.

In order to cause the PEAKS Trust to maintain the applicable required Asset/Liability Ratio, we made payments of $7,193 in the six months ended June 30, 2016, and $30,090 in the year ended December 31, 2015 under the PEAKS Guarantee that were applied by the PEAKS Trust to reduce the amount of the PEAKS Senior Debt. See Note 11 – Commitments and Contingencies, for a discussion of our projected PEAKS Guarantee payments for 2016 through 2020.

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

9. Earnings Per Common Share

Earnings per common share for all periods have been calculated in conformity with ASC 260, "Earnings Per Share." This data is based on historical net income and the weighted average number of shares of our common stock outstanding during each period as set forth in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares:				
Weighted average number of shares of common stock outstanding	23,928	23,621	23,835	23,591
Shares assumed issued (less shares assumed purchased for treasury) for stock-based compensation	194	465	346	362
Outstanding shares for diluted earnings per share calculation	24,122	24,086	24,181	23,953

A total of approximately 1.5 million shares in the three and six months ended June 30, 2016 and 1.3 million shares in the three and six months ended June 30, 2015 were excluded from the calculation of our diluted earnings per common share, because the effect was anti-dilutive.

10. Employee Pension Benefits

The following table sets forth the components of net periodic pension benefit of the ESI Pension Plan (a non-contributory defined benefit pension plan, commonly referred to as a cash balance plan) and ESI Excess Pension Plan (a nonqualified, unfunded retirement plan) in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest cost	$ 387	$ 409	$ 790	$ 818
Expected return on plan assets	(1,199)	(1,384)	(2,424)	(2,767)
Recognized net actuarial loss	0	0	0	1
Amortization of prior service costs	(389)	(389)	(777)	(778)
Net periodic pension (benefit)	$ (1,201)	$ (1,364)	$ (2,411)	$ (2,726)

The benefit accruals under the ESI Pension Plan and ESI Excess Pension Plan were frozen effective March 31, 2006. As a result, no service cost has been included in the net periodic pension benefit.

We did not make any contributions to the ESI Pension Plan or the ESI Excess Pension Plan in the three or six months ended June 30, 2016 or 2015. We do not expect to make any significant contributions to the ESI Pension Plan or the ESI Excess Pension Plan in 2016.

The following table sets forth the changes in the components of Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet in the six months ended June 30, 2016:

	Defined Benefit Pension Items		
	Accumulated Other Comprehensive (Loss)	Income Tax Benefit	Accumulated Other Comprehensive (Loss) Net of Income Tax
Balance at December 31, 2015	$ (2,869)	$ 1,176	$ (1,693)
Amortization of:			
Actuarial (gains) losses	0	0	0
Prior service costs (credits)	(777)	298	(479)
Balance at June 30, 2016	$ (3,646)	$ 1,474	$ (2,172)

The reclassification of prior service costs or credits from Accumulated other comprehensive (loss) are included in the computation of net periodic pension benefit. The following table sets forth the approximate amounts of net periodic pension benefit and the line items in which those amounts were included in our Condensed Consolidated Statements of Operations in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of educational services	$ 793	$ 877	$ 1,576	$ 1,762
Student services and administrative expenses	408	487	835	964
Net periodic pension benefit	$ 1,201	$ 1,364	$ 2,411	$ 2,726

11. Commitments and Contingencies

As part of our normal operations, one of our insurers issues surety bonds for us that are required by various education authorities that regulate us. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of June 30, 2016, the total face amount of those surety bonds was approximately $21,700. As of June 30, 2016, we also caused a letter of credit with a face amount of approximately $106 to be issued to one of our state regulatory agencies.

Our institutions' failure to submit their 2013 audited consolidated financial statements and the 2013 compliance audits of their administration of the Title IV Programs in which they participate ("Compliance Audits") to the ED by the due date resulted in sanctions imposed by the ED on our institutions that included, among other things, our institutions having to submit a letter of credit payable to the ED. We caused a letter of credit payable to the ED in the amount of $79,708 (the "ED Letter of Credit") to be issued on October 31, 2014. On December 16, 2015, we and the ED entered into an agreement (the "ED Agreement"), which provides that we would provide funds to the ED for the ED to maintain in an escrow account (the "ED Escrowed Funds") in lieu of the ED Letter of Credit. On December 17, 2015, we provided to the ED funds in the amount of $79,708, which amount is subject to further adjustment by the ED based upon changes in our annual Title IV Programs funding, and based on the ED's determination of the percentage of our annual Title IV Programs funding that must be maintained. The ED Letter of Credit was cancelled effective December 22, 2015. As of June 30, 2016 and December 31, 2015 the amount of the ED Escrowed Funds held by the ED was $79,708 and was included in Collateral deposits on our Condensed Consolidated Balance Sheets on each of those dates.

The ED Agreement provides that the ED may draw on the ED Escrowed Funds upon certification by the ED that the drafted funds will be used for one or more of the following purposes:

- to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;
- to provide for the "teach-out" of students enrolled at the time of closure of our institutions; and
- to pay any liabilities owing to the ED arising from acts or omissions by our institutions, on or before November 4, 2019, in violation of requirements set forth in the HEA, including the violation of any agreement entered into by our institutions with the ED regarding the administration of Title IV Programs.

On June 6, 2016, we received a letter from the ED (the "June 2016 ED Letter") stating that the ED believes that certain actions of the ITT Technical Institutes' accrediting agency, the Accrediting Council for Independent Colleges and Schools ("ACICS") (which actions are described in Note 12 – Risks and Uncertainties), represent an increased risk to the funds under the Title IV Programs that we administer on behalf of students. The June 2016 ED Letter indicates that due to this increased risk, the ED determined that the amount of surety provided by us must be increased from approximately $79,708 to approximately $123,646. The June 2016 ED Letter states that we can provide the additional amount required of approximately $43,938 (the "Additional ED Amount") to be held as additional ED Escrowed Funds or that we may provide a new letter of credit payable to the ED in the Additional ED Amount. The June 2016 ED Letter also provides that we must continue to comply with the other requirements imposed on us by the ED currently in effect. These other requirements are described further in our 2015 Form 10-K.

On July 6, 2016, the ED informed us that the ED will permit us to provide the Additional ED Amount in three equal installments of approximately $14,646 on each of July 20, 2016, September 30, 2016 and November 30, 2016. The ED stated that prior to the third installment due on November 30, 2016, the ED will evaluate our Title IV Program funding level for the 2016 fiscal year to determine if an adjustment in the scheduled payment amount can be made while ensuring that the amount held in surety represents at least 20% of our annual student aid funding. The ED subsequently indicated that the analysis of our annual Title IV Program funding volume will not be the only factor that the ED considers in determining whether a change to the third installment is warranted, and it will also take into account the risk environment as it exists at that future time.

On July 20, 2016, we made the required first installment payment of $14,646 to the ED, which is being held as part of the ED Escrowed Funds under the ED Agreement. The Additional ED Amount will be included in Collateral deposits on our Condensed Consolidated Balance Sheets.

Claims and Contingencies. Claims and contingencies that we are subject to include those related to litigation, government investigations, business transactions, tax matters and employee-related matters, among others. We record a liability for those claims and contingencies, if it is probable that a loss will result and the amount of the loss can be reasonably estimated. Although we believe that our estimates related to any claims and contingencies are reasonable, we cannot make any assurances with regard to the accuracy of our estimates, and actual results could differ materially.

The following table sets forth the amounts of our recorded liability related to our claims and contingencies and where the amounts were included on our Condensed Consolidated Balance Sheets as of the dates indicated:

	As of		
	June 30, 2016	**December 31, 2015**	**June 30, 2015**
Other current liabilities	$15,936	$ 16,330	$13,397
Other liabilities	588	588	598
Total	$16,524	$ 16,918	$13,995

The following table sets forth the activity with respect to our recorded liability related to our claims and contingencies in the periods indicated:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Balance at beginning of period	$ 15,788	$ 15,006	$ 16,918	$ 15,574
Increases (decreases) from:				
Additional accruals, other (1)	5,966	6,037	12,475	11,554
Payments, other (2)	(5,230)	(7,048)	(12,869)	(13,133)
Balance at end of period	$ 16,524	$ 13,995	$ 16,524	$ 13,995

(1) Consists of accruals for legal fees.
(2) Consists of payments for legal and other contingencies.

In connection with estimating our recorded liability for claims and contingencies as of June 30, 2016, December 31, 2015 and June 30, 2015, we considered whether additional losses for claims and contingencies were reasonably possible, could be estimated and might be material to our financial condition, results of operations or cash flows. As with any estimate, as facts and circumstances change, the recorded liability and estimated range of reasonably possible losses could change significantly. With respect to legal proceedings, we determined that we cannot provide an estimate of the possible losses, or the range of possible losses, in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following:

- there are significant factual issues to be resolved;
- there are novel or unsettled legal issues presented;
- the proceedings are in the early stages;
- there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class;

- there is uncertainty as to the outcome of pending appeals or motions; and
- in many cases, the plaintiffs have not specified damages in their complaint or in court filings.

We may resolve certain federal and state income tax matters presently under examination within the 12 months immediately following the date of this filing. As of June 30, 2016, we estimated that it was reasonably possible that unrecognized tax benefits, excluding interest and penalties, could decrease in an amount ranging from $0 to $11,100, and that we could pay approximately $4,200, in each case in the 12 months immediately following the date of this filing due to the resolution of those matters.

We have presented legal and professional fees related to certain lawsuits, investigations and accounting matters as a separate line item in our Condensed Consolidated Statements of Operations. A portion of the amounts included in this line item represent expenses for various lawsuits, investigations and accounting matters that we believe are not representative of those normally incurred in the ordinary course of business. Certain of those lawsuits and investigations are described in detail, below. The expenses for the accounting matters included in this line item related primarily to services relating to accounting for the Private Education Loans and, in the three and six months ended June 30, 2015, services relating to the accounting for the CUSO Consolidation.

Guarantees. *PEAKS Guarantee and Purchase Obligation* . Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required Asset/Liability Ratio. The PEAKS Guarantee contains, among other things, representations and warranties and events of default that we believe are customary for guarantees of this type. In addition, under the PEAKS Program, some or all of the holders of the PEAKS Senior Debt could require us to purchase their PEAKS Senior Debt, if the law is changed to reduce the maximum allowable percentage of our annual revenue derived from Title IV Program funds from 90% to 75% or less. At this time, we believe that the likelihood of such a change in the law is remote. Our guarantee and purchase obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. At such time, we will be entitled to repayment of the amount of any payments we made under the PEAKS Guarantee to the extent that funds are remaining in the PEAKS Trust. The PEAKS Senior Debt matures in January 2020 and, therefore, we do not expect to begin receiving any repayment of amounts that we previously paid under the PEAKS Guarantee until February 2020.

We consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. See Note 5 – Variable Interest Entities, for a further discussion of the PEAKS Consolidation. As a result, the assets and liabilities of the PEAKS Trust have been included on, and all intercompany transactions have been eliminated from, our Condensed Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 and June 30, 2015.

Projected PEAKS Guarantee Payments . We believe that it is probable that we will make additional payments under the PEAKS Guarantee and estimate that those payments may be approximately $3,600 from July 1, 2016 through December 31, 2016, $1,200 in 2017 and $10,500 in 2020. All of these payments are expected to reduce the outstanding principal balance of the PEAKS Senior Debt, which would result in an outstanding principal balance of the PEAKS Senior Debt of approximately $36,500 as of December 31, 2016, $27,500 as of December 31, 2017 and $0 as of January 31, 2020. See Note 8 – Debt, for a further discussion of the PEAKS Senior Debt. After the PEAKS Senior Debt matures in January 2020, the PEAKS Trust will continue to collect on PEAKS Trust Student Loans that remain in repayment and collect recoveries on PEAKS Trust Student Loans that have been charged off. The only obligation of the PEAKS Trust, at that time, will be the payment of the fees and expenses of the PEAKS Trust. As a result, we believe that, after that time, we may recover from the PEAKS Trust, in the aggregate, approximately $32,000 of the amount that we have paid or will pay under the PEAKS Guarantee. See below for information regarding the assumptions on which those estimates are based.

The estimated amount and timing of future payments and recoveries with respect to the PEAKS Guarantee discussed above and elsewhere in this report are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. The assumptions included, among other things, the following:

- the repayment performance of the PEAKS Trust Student Loans, the proceeds from which will be used to repay the PEAKS Senior Debt and to pay the fees and expenses of the PEAKS Trust, and the performance of which also affects the Asset/Liability Ratio;
- the fact that those loans will consist of a large number of loans of individually immaterial amounts;
- the fact that the interest rate on the PEAKS Senior Debt is a variable rate based on the LIBOR plus a margin; and
- the amount of fees and expenses of the PEAKS Trust, much of which is based on the principal balance of the PEAKS Trust Student Loans.

See also "— *PEAKS Guarantee and CUSO RSA Payments in Certain Periods,* " for information regarding certain payments we have made related to the PEAKS Program.

CUSO RSA . On February 20, 2009 we entered into the CUSO RSA in connection with the CUSO Program. Under the CUSO RSA, we guarantee the repayment of the principal amount (including capitalized origination fees) and accrued interest payable on any private education loans made under the CUSO Program that are charged off above a certain percentage of the private education loans made under the CUSO Program, based on the annual dollar volume. The total initial principal amount of private education loans that the CUSO purchased under the CUSO Program was approximately $141,000. No new private education loans were or will be originated under the CUSO Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through June 2012. Our obligations under the CUSO RSA will remain in effect, until all private education loans made under the CUSO Program are paid in full. The standard repayment term for a private education loan made under the CUSO Program is ten years, with repayment generally beginning six months after a student graduates or three months after a student withdraws or is terminated from his or her program of study.

Pursuant to the CUSO RSA, we are required to maintain collateral to secure our guarantee obligation in an amount equal to a percentage of the outstanding balance of the private education loans disbursed to our students under the CUSO Program. As of June 30, 2016, December 31, 2015 and June 30, 2015, the total collateral maintained in a restricted bank account was approximately $8,630. This amount was included in Collateral deposits on our Condensed Consolidated Balance Sheets as of each of those dates. The CUSO RSA also requires that we comply with certain covenants, including that we maintain certain financial ratios which are measured on a quarterly basis and that we deliver compliance certificates on a quarterly basis setting forth the status of our compliance with those financial ratios. If we are not in compliance with those covenants at the end of each fiscal quarter, we are required to increase the amount of collateral maintained in the restricted bank account to a predetermined amount, until the end of a succeeding quarter at which we are in compliance with those covenants. The predetermined amount is based on the percentage of the aggregate principal balance of the private education loans made under the CUSO Program that exceeds a certain percentage as of the end of each fiscal quarter.

We were not in compliance with certain covenants under the CUSO RSA as of June 30, 2016 and, as a result, will be required to deposit approximately $200 as additional collateral in August 2016. We do not expect to be in compliance with these covenants in the foreseeable future, however based on the estimated principal balance of the private education loans under the CUSO program, we do not believe that we will be required to deposit any additional collateral.

Under the CUSO RSA, we have the right to elect to make Discharge Payments with respect to private education loans made under the CUSO Program that have been charged off. The effect of a making a Discharge Payment related to a private education loan is to reduce the aggregate amount that we may have to pay under our guarantee obligations with respect to that loan. We have claimed as an offset against amounts owed to us under the Revolving Note amounts that would have the effect of discharging our obligations with respect to certain charged off loans under the CUSO RSA. In addition, in the three and six months ended June 30, 2015, we made Discharge Payments to the CUSO. We did not make any Discharge Payments in the three or six months ended June 30, 2016. Making Discharge Payments results in us paying amounts to the CUSO in advance of when a guarantee payment would be due, which would negatively impact our liquidity in a particular period, but results in us paying a lesser amount than we otherwise would have been required to pay under our guarantee obligation in future periods under the CUSO RSA. See Note 5 – Variable Interest Entities, for a further discussion of Discharge Payments.

We consolidated the CUSO in our consolidated financial statements beginning on September 30, 2014. See Note 5 – Variable Interest Entities, for a further discussion of the CUSO Consolidation. As a result, the assets and liabilities of the CUSO have been included on, and all intercompany transactions have been eliminated from, our Condensed Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 and June 30, 2015.

CUSO RSA Amendment. On June 8, 2015, we entered into a Sixth Amendment to the CUSO RSA (the "Sixth Amendment to CUSO RSA") with the CUSO. The Sixth Amendment to CUSO RSA provides that:

- the period of time during which we are not required to comply with the debt service ratio covenant under the CUSO RSA is extended through March 31, 2016;
- the period of time during which we are not required to comply with the current ratio covenant under the CUSO RSA is extended through March 31, 2016;
- we are not required to comply with the average persistence percentage covenant under the CUSO RSA as of the end of each fiscal quarter ending March 31, 2015 through March 31, 2016;
- we make a payment of $6,544 to the CUSO, which payment is considered a Discharge Payment under the CUSO RSA;
- at our option, we may defer the payment of any amounts otherwise becoming due by us under the CUSO RSA between June 8, 2015 and December 31, 2015, which payments must be made by us on or before January 4, 2016; and
- the payments deferred by us will not bear interest, unless we do not pay such amounts by January 4, 2016, in which case any portion of any deferred payments remaining unpaid as of that date will accrue interest at the rate of 12.5% per annum, from the date such deferred payment would otherwise have been due absent the deferral provided in the Sixth Amendment to CUSO RSA.

We made the $6,544 Discharge Payment on June 10, 2015, which had the effect of reducing the amount of Regular Payments that we otherwise would have had to make in 2015 by approximately $2,000. The reason for the provision in the Sixth Amendment to CUSO RSA that permitted us to defer to 2016 the payment of any amounts otherwise due between June 8, 2015 and December 31, 2015 is because without such deferral, we believed that we would have exceeded the limitation under the Financing Agreement on amounts that we could pay in 2015 under the CUSO RSA and the PEAKS Guarantee. We deferred the full amount of the payments due in June 2015 through December 2015 under the CUSO RSA, which totaled $6,092. Recoveries of charged-off loans received by the CUSO from June 2015 through December 2015 and due to us were $761 and were not paid to us. We utilized those recovery amounts to offset against amounts that we owed under the CUSO RSA in January 2016, resulting in a payment of $5,331 related to this deferral.

Projected CUSO RSA Payments . We believe that it is probable that we will make additional payments under the CUSO RSA. We are entitled to all amounts that the CUSO recovers from loans in a particular loan pool made under the CUSO Program that have been charged-off, until all payments that we made under the CUSO RSA with respect to that loan pool have been repaid to us by the CUSO. Pursuant to the CUSO RSA, we have the right to offset amounts that we owe under the CUSO RSA by the amount of recoveries from charged-off loans made under the CUSO Program that are owed, but have not been paid, to us.

Based on various assumptions, including the historical and projected performance and collections of the CUSO Student Loans, we believe that we will make payments under the CUSO RSA as set forth in the following table:

Period	Estimated Regular Payments	Estimated Recoveries (1)	Estimated Total Payments, Net
7/1/16 - 12/31/16	$ 5,600	$ (500)	$ 5,100
2017	12,000	(1,000)	11,000
2018	14,000	(1,000)	13,000
2019 and later	99,000(2)	0	99,000(2)
Total	$ 130,600	$ (2,500)	$ 128,100

(1) We expect to offset Regular Payments due to the CUSO from us under the CUSO RSA by the recoveries from charged-off loans that are due to us from the CUSO.

(2) We believe that this amount will be paid by us in approximately equal portions in each of 2019 through 2025.

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

The estimated amount of future payments under the CUSO RSA assumes that an offset that we made in 2013 of certain payment obligations under the CUSO RSA against the CUSO's obligations owed to us under the Revolving Note will not be determined to have been improper. See "— *PEAKS Guarantee and CUSO RSA Payments in Certain Periods* " below for a further discussion of that offset. As of June 30, 2016, in the event that offset is determined to be improper, we may be required to pay the CUSO approximately $10,681, net of approximately $1,049 of recoveries from charged-off loans, which would be in addition to the estimated payment amounts set forth above.

The estimated amount and timing of future payments and recoveries with respect to the CUSO RSA discussed above are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. The assumptions included, among other things, the following:

- the repayment performance of the private education loans made under the CUSO Program;
- the timing and rate at which those private education loans will be paid;
- the changes in the variable interest rates applicable to those private education loans;
- the amounts and timing of collections in the future on those private education loans that have been charged off; and
- our ability to utilize the available options for payment of our obligations under the CUSO RSA.

PEAKS Guarantee and CUSO RSA Payments in Certain Periods . The following table sets forth the approximate aggregate amount of PEAKS Guarantee payments and CUSO RSA payments that were made in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PEAKS Guarantee Payments	$ 2,659	$ 6,820	$ 7,193	$ 20,457
CUSO RSA Regular Payments	2,653(1)	1,560(2)	5,250(3)	3,840(4)
CUSO RSA Discharge Payments	0	6,544	0	9,253
CUSO RSA Deferred Payment	0	0	5,331(5)	0
Total	$ 5,312	$ 14,924	$ 17,774	$ 33,550

(1) This amount is net of $351 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA.

(2) This amount is net of $231 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA.

(3) This amount is net of $645 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA.

(4) This amount is net of $521 of recoveries from charged-off loans owed to us that we offset against amounts owed by us under the CUSO RSA.

(5) This amount is net of $761 of recoveries from charged-off loans received by the CUSO from June 8, 2015 through December 31, 2015 that were not paid to us that we offset against amounts owed by us under the CUSO RSA in January 2016.

In the three and six months ended June 30, 2016 and 2015, we offset all recoveries from charged-off loans that were due to us from the CUSO against the amounts we owed to the CUSO under the CUSO RSA.

Since 2013, we have not offset any amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note. In the first quarter of 2013, we notified the CUSO that we had determined that the CUSO was in default of its obligations to us under the agreement pursuant to which the Revolving Note was issued and, as a result of that default, all amounts under the Revolving Note were immediately due and payable. We also notified the CUSO that we would not make payments under the CUSO RSA until we received credit for the full amount due us under the Revolving Note, based on the provisions of the CUSO Program documents that allow us to set off amounts owed by us under the CUSO RSA against amounts owed to us by the CUSO under the Revolving Note. At that time, the outstanding amount of the Revolving Note due to us was approximately $8,200, representing principal and accrued interest.

In response to our notification, the CUSO denied that it was in default and refused our demand to immediately pay the Revolving Note in full. As a consequence, over the period from February 2013 through August 2013, we offset our then current payment obligations under the CUSO RSA and the amount of Discharge Payments we elected to make during that period against all of the CUSO's obligations owed to us under the Revolving Note (the "Offset").

We understand that the CUSO's position is that the Offset was improper, because it has not defaulted and, even if it had defaulted, the assets of the CUSO against which we could offset or exercise our other remedies were limited. We further understand the CUSO's position to be that, because the Offset was improper, we are in default under the CUSO RSA. In April 2013, the CUSO notified us that it had taken control of the restricted account containing the cash collateral that we deposited to secure our obligations under the CUSO RSA (the "Collateral"). To our knowledge, the CUSO has taken no further action related to the Collateral. We believe that our good faith exercise of our right of offset provided for in the CUSO Program documents does not constitute an event of default under the CUSO RSA, and that the CUSO's seizure of control of the restricted account containing the Collateral constitutes an additional default by the CUSO. We cannot assure you, however, that the Offset will ultimately be determined to have been proper. As of June 30, 2016, in the event of a default by us under the CUSO RSA related to the Offset, we may be required to pay to the CUSO approximately $10,681, net of approximately $1,049 of recoveries from charged-off loans that are owed, but have not been paid, to us. If, instead, the CUSO was to withdraw Collateral in that amount from the restricted bank account, we would be required to deposit that amount of cash in the account to maintain the required level of Collateral.

Litigation . We are subject to various litigation. We cannot assure you of the ultimate outcome of any litigation involving us. Although we believe that our estimates related to any litigation are reasonable, deviations from our estimates could produce a materially different result. Any litigation alleging violations of education or consumer protection laws and/or regulations, misrepresentation, fraud or deceptive practices may also subject our affected campuses to additional regulatory scrutiny. The following is a description of pending litigation that falls outside the scope of litigation incidental to the ordinary course of our business.

On December 22, 2008, we were served with a qui tam action that was filed on July 3, 2007 in the United States District Court for the Southern District of Indiana by a former employee ("relator") on behalf of herself and the federal government under the following caption: *United States of America ex rel. Debra Leveski v. ITT Educational Services, Inc.* (the "Leveski Litigation"). We were served with the Leveski Litigation after the U.S. Department of Justice declined to intervene in the litigation. On June 3, 2008, the relator filed an amended complaint in the Leveski Litigation. On September 23, 2009, the court dismissed the Leveski Litigation without prejudice and gave the relator an opportunity to replead her complaint. On October 8, 2009, the relator filed a second amended complaint. In the second amended complaint, the relator alleges that we violated the False Claims Act, 31 U.S.C. § 3729, *et seq* ., and the HEA by compensating our sales representatives and financial aid administrators with commissions, bonuses or other incentive payments based directly or indirectly on success in securing enrollments or federal financial aid. The relator alleges that all of our revenue derived from the federal student financial aid programs from July 3, 2001 through July 3, 2007 was generated as a result of our violating the HEA. The relator seeks various forms of recovery on behalf of herself and the federal government, including:

- treble the amount of unspecified funds paid to us for federal student grants;
- treble the amount of unspecified default payments, special allowance payments and interest received by lenders with respect to federal student loans received by our students;
- all civil penalties allowed by law; and
- attorney's fees and costs.

A qui tam action is a civil lawsuit brought by one or more individuals (a qui tam "relator") on behalf of the federal or state government for an alleged submission to the government of a false claim for payment. A qui tam action is always filed under seal and remains under seal, until the government decides whether to intervene in the litigation. Whenever a relator files a qui tam action, the government typically initiates an investigation in order to determine whether to intervene in the litigation. If the government intervenes, it has primary control over the litigation. If the government declines to intervene, the relator may pursue the litigation on behalf of the government. If the government or the relator is successful in the litigation, the relator receives a portion of the government's recovery.

On August 8, 2011, the district court granted our motion to dismiss all of the relator's claims in the Leveski Litigation for lack of subject-matter jurisdiction and issued a judgment for us. On February 16, 2012, the relator in the Leveski Litigation filed a Notice of Appeal with the 7 th Circuit Court of Appeals regarding the final judgment entered by the district court dismissing all claims against us. On March 26, 2012, the district court in the Leveski Litigation awarded us approximately $395 in sanctions against the relator's attorneys for filing a frivolous lawsuit. Relator's attorneys also appealed this award to the 7 th Circuit Court of Appeals. On July 8, 2013, the 7 th Circuit Court of Appeals reversed the district court's dismissal of the Leveski Litigation for lack of subject-matter jurisdiction and the award of sanctions against relator's attorneys. In addition, the 7 th Circuit Court of Appeals remanded the Leveski Litigation back to the district court for further proceedings.

We have defended, and intend to continue to defend, ourselves vigorously against the allegations made in the complaint.

On March 11, 2013, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of New York under the following caption: *William Koetsch, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.* (the "Koetsch Litigation"). On April 17, 2013, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of New York under the following caption: *Massachusetts Laborers' Annuity Fund, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc., et al.* (the "MLAF Litigation"). On July 25, 2013, the court consolidated the Koetsch Litigation and MLAF Litigation under the following caption: *In re ITT Educational Services, Inc. Securities Litigation* (the "New York Securities Litigation"), and named the Plumbers and Pipefitters National Pension Fund and Metropolitan Water Reclamation District Retirement Fund as the lead plaintiffs. On October 7, 2013, an amended complaint was filed in the New York Securities Litigation, and on January 15, 2014, a second amended complaint was filed in the New York Securities Litigation. The second amended complaint alleged, among other things, that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated thereunder by:

- our failure to properly account for the 2007 RSA, CUSO RSA and PEAKS Program;
- employing devices, schemes and artifices to defraud;
- making untrue statements of material facts, or omitting material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- making the above statements intentionally or with reckless disregard for the truth;
- engaging in acts, practices, and a course of business that operated as a fraud or deceit upon lead plaintiffs and others similarly situated in connection with their purchases of our common stock;
- deceiving the investing public, including lead plaintiffs and the purported class, regarding, among other things, our artificially inflated statements of financial strength and understated liabilities; and
- causing our common stock to trade at artificially inflated prices and causing the plaintiff and other putative class members to purchase our common stock at inflated prices.

The putative class period in this action was from April 24, 2008 through February 25, 2013. The plaintiffs sought, among other things, the designation of this action as a class action, an award of unspecified compensatory damages, interest, costs and expenses, including counsel fees and expert fees, and such equitable/injunctive and other relief as the court deems appropriate. On July 22, 2014, the district court denied most of our motion to dismiss all of the plaintiffs' claims for failure to state a claim for which relief can be granted. On August 5, 2014, we filed our answer to the second amended complaint denying all of the plaintiffs' claims. Plaintiffs filed their motion for class certification on March 27, 2015.

Following a mediation which began in the third quarter of 2015, the parties came to an agreement in principle to settle the New York Securities Litigation. On November 2, 2015, the parties in the New York Securities Litigation entered into a Stipulation and Agreement of Settlement (the "New York Settlement") to resolve the action in its entirety. Under the terms of the New York Settlement, we and/or our insurers made a payment of $16,962 in exchange for the release of claims against the defendants and other released parties, by the plaintiffs and all settlement class members, and for the dismissal of the action with prejudice. On November 2, 2015, the plaintiffs in the New York Securities Litigation filed the New York Settlement and related exhibits with the court and moved, among other things, for the court to preliminarily approve the New York Settlement, to approve the contents and procedures for notice to potential settlement class members, to certify the New York Securities Litigation as a class action for settlement purposes only, and to schedule a hearing for the court to consider final approval of the New York Settlement. On November 23, 2015, the court entered an order preliminarily approving the New York Settlement and scheduled a hearing for March 8, 2016 to consider final approval of the New York Settlement. Prior to the March 8, 2016 hearing, potential settlement class members (all persons and entities who purchased or otherwise acquired our common stock between April 24, 2008 and February 25, 2013, both dates inclusive (with limited exclusions)) had an opportunity to exclude themselves from participating in the New York Settlement or to raise objections with the court regarding the New York Settlement or any part thereof. On March 8, 2016, the court granted final approval of the New York Settlement and entered an order dismissing the New York Securities Litigation with prejudice.

The New York Settlement contains no admission of liability, and all of the defendants in the New York Securities Litigation have expressly denied, and continue to deny, all allegations of wrongdoing or improper conduct. Our insurance carriers funded a combined $25,000 collectively towards the settlement payments for the New York Settlement and the Indiana Settlement (defined below).

On September 30, 2014, a complaint in a securities class action lawsuit was filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of Indiana under the following caption: *David Banes, on Behalf of Himself and All Others Similarly Situated v. Kevin M. Modany, et al.* (the "Banes Litigation"). On October 3, 2014, October 9, 2014 and November 25, 2014, three similar complaints were filed against us, one of our current executive officers and one of our former executive officers in the United States District Court for the Southern District of Indiana under the following captions: *Babulal Tarapara, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc. et al.* (the "Tarapara Litigation"), *Kumud Jindal, Individually and on Behalf of All Others Similarly Situated v. Kevin Modany, et al.* (the "Jindal Litigation") and *Kristopher Hennen, Individually and on Behalf of All Others Similarly Situated v. ITT Educational Services, Inc. et al.* (the "Hennen Litigation"). On November 17, 2014, the Tarapara Litigation and the Jindal Litigation were consolidated into the Banes Litigation. On January 21, 2015, the Hennen Litigation was consolidated into that consolidated action (the "Indiana Securities Litigation"). On December 1, 2014, motions were filed in the Indiana Securities Litigation for the appointment of lead plaintiff and lead counsel. On March 16, 2015, the court appointed a lead plaintiff and lead counsel. Subsequently, the caption for the Indiana Securities Litigation was changed to the following: *In re ITT Educational Services, Inc. Securities Litigation (Indiana).*

On May 26, 2015, an amended complaint was filed in the Indiana Securities Litigation. The amended complaint alleged, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder by knowingly or recklessly making false and/or misleading statements and failing to disclose material adverse facts about our business, operations, prospects and financial results. Plaintiffs asserted that the defendants engaged in a fraudulent scheme and course of business and that alleged misstatements and/or omissions by the defendants caused members of the putative class to purchase our securities at artificially inflated prices. The amended complaint included allegations relating to:

- the performance of the PEAKS Program and the CUSO Program;
- our guarantee obligations under the PEAKS Program and the CUSO Program;
- our accounting treatment of the PEAKS Program and the CUSO Program;
- consolidation of the PEAKS Trust in our consolidated financial statements;
- the impact of the PEAKS Program and the CUSO Program on our liquidity and overall financial condition;
- our compliance with Department of Education financial responsibility standards; and
- our internal controls over financial reporting.

The putative class period in the Indiana Securities Litigation was from February 26, 2013 through May 12, 2015. The plaintiffs in the Indiana Securities Litigation sought, among other things, the designation of the action as a proper class action, an award of unspecified compensatory damages against all defendants, interest, costs, expenses, counsel fees and expert fees, and such other relief as the court deems proper.

Following a mediation that began in the third quarter of 2015, the parties came to an agreement in principle to settle the Indiana Securities Litigation. On November 2, 2015, the parties in the Indiana Securities Litigation entered into a Stipulation and Agreement of Settlement (the "Indiana Settlement") to resolve the action in its entirety. Under the terms of the Indiana Settlement, we and/or our insurers made a payment of $12,538 in exchange for the release of claims against the defendants and other released parties, by the plaintiffs and all settlement class members, and for the dismissal of the action with prejudice. On November 2, 2015, the plaintiffs in the Indiana Securities Litigation filed the Indiana Settlement and related exhibits with the court and moved, among other things, for the court to preliminarily approve the Indiana Settlement, to approve the contents and procedures for notice to potential settlement class members, to certify the Indiana Securities Litigation as a class action for settlement purposes only, and to schedule a hearing for the court to consider final approval of the Indiana Settlement. On November 4, 2015, the court entered an order preliminarily approving the Indiana Settlement and scheduled a hearing for March 10, 2016 to consider final approval of the Indiana Settlement. Prior to the March 10, 2016 hearing, potential settlement class members (all persons and entities who purchased or otherwise acquired our common stock, purchased or otherwise acquired call options on our common stock, or wrote put options on our common stock, between February 26, 2013 and May 12, 2015, both dates inclusive (with limited exclusions)) had an opportunity to exclude themselves from participating in the Indiana Settlement or to raise objections with the court regarding the Indiana Settlement or any part thereof. On March 10, 2016, the court entered an order finding that the Indiana Settlement is fair and reasonable and was entered into in good faith, and the court stated that a separate order regarding the Indiana Settlement would follow. On March 24, 2016, the court entered a final judgment and order approving the Indiana Settlement and dismissing the Indiana Securities Litigation with prejudice.

The Indiana Settlement contains no admission of liability, and all of the defendants in the Indiana Securities Litigation have expressly denied, and continue to deny, all allegations of wrongdoing or improper conduct. Our insurance carriers funded a combined $25,000 collectively towards the settlement payments for the Indiana Settlement and the New York Settlement.

On May 8, 2013, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and three former Directors in the United States District Court for the Southern District of New York under the following caption: *Sasha Wilfred, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al.* (the “Wilfred Litigation”). On May 27, 2014, a complaint in a similar shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and four former Directors in the United States District Court for the district of Delaware under the following caption: *Janice Nottenkamper, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v Kevin M. Modany, et al.* (the “Nottenkamper Litigation”).

On April 29, 2015, the Nottenkamper Litigation was transferred to the United States District Court for the Southern District of New York. On July 28, 2015, the court also consolidated the Wilfred Litigation and the Nottenkamper Litigation, appointing plaintiff Sasha Wilfred as lead plaintiff in the consolidated action.

On August 21, 2015, lead plaintiff filed a consolidated amended complaint. On September 16, 2015, plaintiff Nottenkamper was appointed as co-lead plaintiff in the Wilfred Litigation. The consolidated amended complaint alleged, among other things, that the defendants violated state law, including breaching their fiduciary duties to us, grossly mismanaging us, abusing their control of us, wasting our corporate assets and being unjustly enriched, by:

- causing or allowing us to disseminate to our shareholders materially misleading and inaccurate information relating to a series of risk-sharing agreements through SEC filings, press releases, conference calls, and other public statements and disclosures;
- willfully ignoring obvious and pervasive problems with our internal controls and practices and procedures, and failing to make a good faith effort to correct these problems or prevent their recurrence;
- violating and breaching fiduciary duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision;
- causing or allowing us to misrepresent material facts regarding our financial position and business prospects; and
- abandoning their responsibilities and duties with regard to prudently managing our businesses in a manner imposed upon them by law.

The consolidated amended complaint also referred to certain issues and events that arose subsequent to the commencement of the Wilfred Litigation, including among other things, the agreements that we entered into with Mr. Modany and Mr. Fitzpatrick, dated August 4, 2014 and April 29, 2015, respectively, setting forth the terms of their resignations (the “Resignation Agreements”), the CFPB complaint against us, our submission of a letter of credit to the ED, our restatement of certain financial results, our receipt of a Wells Notice from the SEC, and the SEC complaint against us.

The consolidated amended complaint sought:

- unspecified damages;
- restitution;
- disgorgement of all profits, benefits and other compensation obtained by the individual defendants;
- an order directing us to take all necessary actions to reform and improve our corporate governance and internal procedures; and
- costs and disbursements, including attorneys’, accountants’ and experts’ fees, costs and expenses.

On December 23, 2014, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but four of our current Directors, and three former Directors in the United States District Court for the Southern District of Indiana under the following caption: *Michelle Lawrence, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al* . (the "Lawrence Litigation"). The complaint alleges, among other things, that the individual defendants breached their fiduciary duties to us, abused their control, grossly mismanaged us and were unjustly enriched by:

- participating in misrepresentation of our business operations;
- failing to correct our public statements;
- failing to oversee our business and internal controls;
- causing us to issue false and misleading statements of material fact in our consolidated financial statements in our quarterly reports;
- subjecting us to multiple federal securities fraud class action lawsuits;
- causing us to restate our consolidated financial statements in our quarterly reports; and
- causing us to receive a Wells Notice from the SEC.

The complaint sought:

- unspecified damages;
- restitution;
- disgorgement of all profits, benefits and other compensation obtained by the individual defendants;
- an order directing us to take all necessary actions to reform and improve our corporate governance and internal procedure, including taking action to strengthen the Board's supervision of operations, procedures for greater shareholder input and for effective oversight of compliance; and
- costs and disbursements, including attorneys' and experts' fees, costs and expenses.

On July 1, 2015, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and three former Directors in the Marion Superior Court, Indianapolis, Indiana under the following caption: *William McKee, Derivatively on behalf of ITT Educational Services, Inc. v. Kevin Modany, et al. (* the "McKee Litigation"). The complaint alleged, among other things, that the individual defendants breached their fiduciary duties to us by:

- causing us to engage in unlawful conduct with respect to risky student loan financing programs;
- causing us to fail to disclose material information to shareholders regarding our business, financial condition, and accounting procedures;
- preparing and disseminating inaccurate press releases and SEC filings;
- failing to ensure the existence of appropriate and adequate internal financial controls;
- exposing us to substantial investigation costs, huge liability to stock purchasers, regulatory penalties, and the cost of defending the SEC proceeding and the securities litigations; and
- damaging our reputation and goodwill in the securities markets.

The complaint sought:

- a declaratory judgment;
- restitution;
- equitable and/or injunctive relief;
- an order directing us to reform and improve corporate governance and internal procedures; and
- costs and disbursements, including attorneys', accountants' and experts' fees, costs and expenses.

On January 21, 2016, the parties in the Wilfred Litigation, Lawrence Litigation, and McKee Litigation all entered into a Stipulation and Agreement of Settlement (the "Derivative Settlement"), subject to court approval, to settle the three shareholder derivative actions discussed above: (1) the Wilfred Litigation, including the Nottenkamper Litigation consolidated thereunder; (2) the Lawrence Litigation; and (3) the McKee Litigation. The Derivative Settlement is intended by the settling parties to fully, finally and forever resolve the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation and to result in the dismissal of those actions with prejudice. Under the terms of the Derivative Settlement, we will implement certain agreed upon corporate governance reforms, to be administered by us and the Board of Directors. Additionally, pursuant to the terms of the Derivative Settlement, we paid half of $1,100 in attorneys' fees and expenses (the "Derivative Fee Award") to the plaintiffs' counsel. One of our insurers funded the other half of the Derivative Fee Award, on behalf of the individual defendants in the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation.

On January 22, 2016, the Derivative Settlement and related exhibits were filed in the Wilfred Litigation, and the plaintiffs in the Wilfred Litigation moved, among other things, for the court to preliminarily approve the Derivative Settlement and to approve the form and manner of notice to be provided to our shareholders. On January 29, 2016, the court in the Wilfred Litigation entered an order preliminarily approving the Derivative Settlement, and scheduled a hearing for April 6, 2016 to consider final approval of the Derivative Settlement. Prior to the April 6, 2016 hearing, current shareholders had an opportunity to raise objections, or otherwise be heard, regarding the terms of the Derivative Settlement and the Derivative Fee Award. On April 6, 2016, the court in the Wilfred Litigation granted final approval of the Derivative Settlement and entered a final order and judgment dismissing the Wilfred Litigation with prejudice.

On May 12, 2016, the plaintiff in the Lawrence Litigation filed a motion to dismiss that action with prejudice. On May 13, 2016, the plaintiff in the McKee Litigation filed a motion to dismiss that action with prejudice. On May 16, 2016, the respective courts for the Lawrence Litigation and the McKee Litigation granted those motions to dismiss and ordered that the actions be dismissed with prejudice.

The Derivative Settlement did not include any admission of the validity of any of the claims the plaintiffs had asserted in the Wilfred Litigation, the Lawrence Litigation, or the McKee Litigation, or of any liability with respect thereto. We determined that the Derivative Settlement was in our company's best interests, and it was intended to eliminate the uncertainty, distraction, disruption, burden, and expense of further litigation of the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation.

On December 21, 2015, a complaint in a shareholder derivative lawsuit was filed against two of our current executive officers, one of our former executive officers, all but two of our current Directors, and four former Directors in the United States District Court for the Southern District of Indiana under the following caption: *Donnald Canfield, Derivatively on Behalf of Nominal Defendant ITT Educational Services, Inc. v. Kevin M. Modany, et al.* (the "Canfield Litigation"). The complaint alleges, among other things, that the individual defendants breached their fiduciary duties to us, and abused their control by:

- failing to properly oversee our business;
- allowing us to mischaracterize our financial position and business prospects;
- causing us to issue false and misleading statements of material fact in SEC filings regarding a series of risk-sharing agreements related to student loan programs;
- failing to take sufficient steps to reduce risks associated with student loan default rates;
- subjecting us to securities class action lawsuits, government investigations, government enforcement actions, and their associated costs; and
- damaging our reputation and goodwill.

The complaint also alleged that the defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder by misrepresenting or omitting material information in the Company's proxy statement filed with the SEC on March 13, 2012.

The complaint sought:

- a declaratory judgment;
- unspecified compensatory and exemplary damages;
- restitution;
- equitable relief;
- an order directing us to reform and improve corporate governance and internal procedures; and
- costs and disbursements, including attorneys' and experts' fees, costs and expenses.

On January 22, 2016, the defendants in the Canfield Litigation filed a motion to stay the Canfield Litigation pending the approval of the Derivative Settlement for the settlement of the Wilfred Litigation, the Lawrence Litigation, and the McKee Litigation. On February 23, 2016, the court entered an order that no responsive pleading would be due in the Canfield Litigation until after the court's ruling on the stay motion. On April 7, 2016, the defendants filed a notice of final approval of the Derivative Settlement in further support of defendants' motion to stay the Canfield Litigation and requested that the parties report to the court following the effective date of the Derivative Settlement, unless and until the Derivative Settlement was canceled or terminated. On June 24, 2016, the plaintiff in the Canfield Litigation filed a motion to dismiss without prejudice. On June 27, 2016, the court entered an order of dismissal of the Canfield Litigation without prejudice.

Although the Wilfred Litigation, Lawrence Litigation, McKee Litigation, and Canfield Litigation were each brought nominally on behalf of us, we have incurred defense costs and other expenses in connection with those actions.

On May 18, 2012, we received a Civil Investigative Demand (the "Original CID") from the U.S. Consumer Financial Protection Bureau (the "CFPB"). In September 2013, the CFPB withdrew the Original CID, and we received a new Civil Investigative Demand (the "New CID") from the CFPB. Both the Original CID and the New CID provided that the purpose of the CFPB's investigation was, in part, "to determine whether for-profit post-secondary companies, student loan origination and servicing providers, or other unnamed persons have engaged or are engaging in unlawful acts or practices relating to the advertising, marketing, or origination of private student loans." Both the Original CID and the New CID contained broad requests for oral testimony, production of documents and written reports related to private education loans made to our students, internal financing provided to our students and certain other aspects of our business. We provided documentation and other information to the CFPB, while preserving our rights to object to its inquiry.

On February 26, 2014, the CFPB filed a complaint against us in the United States District Court for the Southern District of Indiana under the following caption: *Consumer Financial Protection Bureau v. ITT Educational Services, Inc.* (the "CFPB Litigation"). The complaint claimed, among other things, that we violated:

- Section 1036(a)(1) of the Consumer Financial Protection Act of 2010 (the "CFPA"), 12 U.S.C. § 5536(a)(1), which prohibits unfair, deceptive and abusive acts and practices, from July 21, 2011 through December 2011, by:
  - subjecting consumers to undue influence or coercing them into taking out private education loans through a variety of unfair acts and practices designed to interfere with the consumers' ability to make informed, uncoerced choices;
  - taking unreasonable advantage of consumers' inability to protect their interest in selecting or using the private education loans; and
  - taking unreasonable advantage of consumers' reasonable reliance on us to act in the consumers' interests; and
- the Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq* ., and Regulation Z thereunder, 12 C.F.R. Part 1026, which require certain disclosures to be made in writing to consumers in connection with the extension of consumer credit, since March 2009, by failing to disclose a discount that constituted a finance charge.

We filed a motion to dismiss the CFPB Litigation on several grounds. On March 6, 2015, the court issued an order denying our motion in part and granting it in part, including by dismissing the CFPB's claim under the Truth in Lending Act. On April 8, 2015, we filed a notice of appeal to the United States Court for the Seventh Circuit from the order on the motion to dismiss. On April 20, 2016, the court dismissed our appeal for lack of jurisdiction. We have defended, and intend to continue to defend, ourselves vigorously against the remaining allegations made in the complaint.

On February 27, 2014, the New Mexico Attorney General filed a complaint against us in the District Court of New Mexico under the following caption: *State of New Mexico, ex rel. Gary K King, Attorney General v. ITT Educational Services, Inc., et al.* (the "New Mexico Litigation"). On April 4, 2014, we removed the New Mexico Litigation to the U.S. District Court for the District of New Mexico. In April 2014, the Attorney General filed a motion to remand the New Mexico Litigation to the District Court of New Mexico. On June 30, 2015, the U.S. District Court remanded the New Mexico Litigation back to the state District Court. The complaint alleges, among other things, that we engaged in a pattern and practice of exploiting New Mexico consumers by using deceptive, unfair, unconscionable and unlawful business practices in the marketing, sale, provision and financing of education goods and services in violation of New Mexico's Unfair Practices Act. In particular, the complaint contains allegations that:

- we misrepresented matters related to our nursing education program, including, without limitation, its programmatic accreditation status, the transferability of credits earned in the program and the curriculum of the program;
- we misrepresented the terms of the financial aid available to students and the cost of our programs;
- we engaged in unfair or deceptive trade practices;
- we failed to issue refunds; and
- our form enrollment agreement contained unenforceable and unconscionable provisions.

The complaint seeks:

- an order declaring portions of our enrollment agreement illusory, unconscionable and unenforceable;
- preliminary and permanent injunctive relief;
- disgorgement of unjust enrichment amounts;
- unspecified civil penalty amounts;
- restitution; and
- reasonable costs, including investigative costs.

On July 30, 2015, we filed a motion to dismiss the New Mexico Litigation on several grounds and a motion to compel arbitration. On December 8, 2015, the court denied the motion to dismiss and the motion to compel arbitration. On December 11, 2015, we filed a notice of appeal challenging the denial of our motion to compel arbitration. That appeal is pending in the court of appeals. On January 6, 2016, the State District Court issued an order providing for a stay of the case pending resolution of our appeal. The Attorney General disputes that a stay is in effect and has filed a motion asking the State District Court to proceed with the nonarbitrable claims. We opposed the Attorney General's motion to proceed. On March 24, 2016, the court granted the Attorney General's motion to proceed on nonarbitrable claims. On July 11, 2016, we filed our appellate brief in the court of appeals.

We have defended, and intend to continue to defend, ourselves vigorously against the allegations made in the complaint.

On December 17, 2013, a complaint was filed against us in a purported class action in the Superior Court of the State of California for the County of Los Angeles under the following caption: *La Sondra Gallien, an individual, James Rayonez, an individual, Giovanni Chilin, an individual, on behalf of themselves and on behalf of all persons similarly situated v. ITT Educational*

Services, Inc., et al. (the “Gallien Litigation”). The plaintiffs filed an amended complaint on February 13, 2014. The amended complaint alleges, among other things, that under California law, we:

- failed to pay wages owed;
- failed to pay overtime compensation;
- failed to provide meal and rest periods;
- failed to provide itemized employee wage statements;
- engaged in unlawful business practices; and
- are liable for civil penalties under the California Private Attorney General Act.

The purported class includes recruiting representatives employed by us during the period of December 17, 2009 through December 17, 2013. The amended complaint seeks:

- compensatory damages, including lost wages and other losses;
- general damages;
- pay for missed meal and rest periods;
- restitution;
- liquidated damages;
- statutory penalties;
- interest;
- attorneys’ fees, cost and expenses;
- civil and statutory penalties;
- injunctive relief; and
- such other and further relief as the court may deem equitable and appropriate.

Following a mediation that began in the third quarter of 2015, the parties came to an agreement in principle to settle the Gallien Litigation on a class-wide basis for $400. On October 28, 2015, the parties executed a Stipulation of Class Action Settlement (the “Gallien Settlement”) to document the terms and conditions of the settlement. In connection with the Gallien Settlement and subject to court approval, the settlement is based on claims made with a specific reversion of funds paid back to us, depending on the number of claims made by settlement class members for individual settlement payments. Under the terms specified in the Gallien Settlement, 55% of a net settlement amount of approximately $204 must be paid to settlement class members in the form of individual settlement payments. In the event the settlement is not approved by the court or otherwise does not become effective, we intend to continue to defend ourselves vigorously against the allegations made in the amended complaint. On March 11, 2016, the court entered an order preliminarily approving the Gallien Settlement and scheduled a hearing for June 23, 2016 to consider final approval of the Gallien Settlement. On June 30, 2016, the court entered a final judgment and order approving the Gallien Settlement, which required a payment of $350 from us. On July 8, 2016, we made a payment of $350 in accordance with the terms of the Gallien Settlement.

On May 12, 2015, the SEC filed a civil enforcement action against us, our Chief Executive Officer, Kevin M. Modany, and our former Chief Financial Officer, Daniel M. Fitzpatrick, in the United States District Court for the Southern District of Indiana under the following caption: *United States Securities and Exchange Commission v. ITT Educational Services, Inc., Kevin M. Modany and Daniel M. Fitzpatrick* (the “SEC Litigation”). As we previously disclosed, we received several SEC subpoenas beginning on February 8, 2013. The SEC’s subpoenas requested the production of documents and communications that, among other things, relate to our actions, disclosures, and accounting associated with the CUSO Program and the PEAKS Program. We provided the information requested, including testimony of senior employees. On August 7, 2014, we received a “Wells Notice” from the Staff of the SEC notifying us that the Staff had made a preliminary determination to recommend that the SEC file an enforcement action against us. According to the Staff, the enforcement action would allege violations of Sections 10(b), 13(a) and 13(b)(2) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13 and 13a-15 under the Exchange Act. Under the SEC’s procedures, a recipient of a Wells Notice has an opportunity to respond in the form of a Wells submission that seeks to persuade the SEC that such an action should not be brought. We made submissions to the Staff in response to the Wells Notice we received that set forth why the factual record does not support the enforcement action recommended by the Staff and explained that any of our perceived shortcomings were acts taken in good faith. Our Chief Executive Officer and former Chief Financial Officer each made similar submissions.

The SEC Litigation relates to the matters addressed in the Wells Notice that we received, and the complaint alleges violations of Sections 10(b), 13(a) and 13(b)(2) of the Exchange Act; Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act; and Section 17(a) of the Securities Act. Among other assertions, the complaint alleges that we engaged in a fraudulent scheme and course of business and made various false and misleading statements to our investors relating to the CUSO Program and the PEAKS Program. The remedies sought by the SEC in the complaint include:

- a finding that each of the defendants committed the alleged violations;
- an injunction permanently restraining and enjoining each of the defendants from violating, directly or indirectly, the laws and rules alleged in the complaint;
- an order that Messrs. Modany and Fitzpatrick be permanently prohibited from acting as an officer or director of any public company;

- disgorgement of any and all ill-gotten gains, together with pre- and post-judgment interest, derived from the improper conduct alleged in the complaint;
- civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d) of the Exchange Act in an amount to be determined by the court, plus post-judgment interest;
- an order that Messrs. Modany and Fitzpatrick reimburse us for all bonuses, incentive-based and equity-based compensation, and/or profits realized from their sale of our stock pursuant to Section 304 of the Sarbanes-Oxley Act of 2002; and
- such other relief as the court may deem just or appropriate.

On July 17, 2015, we filed our answer in the SEC Litigation in which we denied all of the SEC's claims.

We intend to defend ourselves vigorously against the claims in the SEC Litigation. Nevertheless, we cannot predict the outcome of any legal action or whether the matter will result in any settlement. We cannot assure you that the ultimate outcome of the SEC Litigation or any settlement will not have a material adverse effect on our financial condition, results of operations and/or cash flows.

In September 2015, we received a Civil Investigative Demand ("CID") from the U.S. Department of Justice ("DOJ"). The CID provides that the purpose of the investigation is to determine whether there is or has been a violation of the False Claims Act and whether we knowingly submitted false statements in violation of the ED's Program Participation Agreement regulations. The CID contained requests for production of documents and answers to interrogatories that we believe are principally related to our compliance with the ED's compensation regulations and was related to a sealed qui tam action. We believe that our practices with respect to compensation matters are in compliance with applicable laws and regulations, and we cooperated with the DOJ in responding to the CID. On January 15, 2016, the United States District Court for the Middle District of Florida issued an order unsealing the underlying qui tam case, revealing that the DOJ has declined to intervene in the qui tam action. Accordingly, the DOJ has closed its investigation. The court also ordered that the qui tam False Claims Act complaint, which was filed by a former disgruntled employee, be served on defendants ITT Educational Services, Inc. and ITT Technical Institute. The qui tam action was filed on April 8, 2015 in the United States District Court for the Middle District of Florida under the following caption: *United States of America ex rel. Rodney Lipscomb v. ITT Educational Services, Inc.* (the "Lipscomb Litigation"). On May 16, 2016, the relator filed an amended complaint. The relator alleges in the amended complaint, among other things, that we received Title IV federal financial aid in violation of various Title IV condition of payment rules and regulations and thereby violated the False Claims Act, 31 U.S.C. §3729, et. seq., by:

- enrolling students who lacked the ability to benefit from our educational experience, contrary to ACICS's accreditation standards;
- misrepresenting course offerings to students;
- misrepresenting the cost of attending ITT Technical Institute and the terms of our Opportunity Scholarship;
- misrepresenting our credit transfer policies and transferability of our credits to other institutions; and
- instructing students to submit false information to the ED about their income on the Free Application for Federal Student Aid.

The relator also alleges that we retaliated against him and violated the False Claims Act by terminating his employment after he reported illegal and unethical practices to our management. The relator also alleges that in violation of Title VII of the Civil Rights Act of 1964, 42 U.S.C. §2000e, et. seq., we terminated his employment because of his race or because he reported and opposed alleged discriminatory behavior by us.

The relator seeks various forms of recovery on behalf of himself and the federal government, including treble damages and civil penalties; the maximum amount pursuant to 31 U.S.C. §3730(d); the maximum amount pursuant to 31 U.S.C. §3730(h), including two times back pay; interest; expenses; attorney's fees; and costs. On April 11, 2016, the complaint was served on us. On July 14, 2016, we filed a motion to dismiss the Lipscomb Litigation. We vehemently deny the allegations in the action and intend to vigorously defend ourself against these claims.

On October 30, 2012, we received a CID from the Massachusetts Office of the Attorney General ("MAG"). The MAG's CID provides that the MAG is investigating allegations that we may have violated Massachusetts General Laws, Chapter 93A, Section 2(a), by "engaging in unfair or deceptive practices in connection with marketing and advertising job placement and student outcomes, the recruitment of students, and the financing of education." The MAG has since requested additional information from us, including through two follow up CIDs. The MAG's CID contains broad requests for production of documents related to our students in Massachusetts, including the financial aid available to those students, our recruitment of those students, the career services that we offer to those students, our marketing and advertising, the retention and graduation rates of those students and many other aspects of our business. We have cooperated with the MAG in its investigation, and we have provided documentation, communications and other information to the MAG in response to the CID.

On March 31, 2016, the MAG filed a civil complaint against us in the Norfolk County (Massachusetts) Superior Court (the "Massachusetts Litigation"). On April 6, 2016, the MAG served that complaint on us. The complaint alleges that we violated the Massachusetts Consumer Protection Act, M.G.L. c.93A §2 with respect to our Computer Network Systems program, by, among other things and without limitation:

- engaging in unfair and harassing sales tactics, including placing undue pressure on Massachusetts consumers and prospective students to enroll;
- making false and/or misleading representations to prospective students concerning placement rates, wages and salaries, and the nature, character and quality of the program and instruction; and
- unfairly steering Massachusetts student borrowers to expensive private loans.

The complaint seeks:

- permanent injunctive relief;
- restitution;
- civil penalties of $5 per violation; and
- costs, including reasonable attorneys' fees.

On May 31, 2016, we filed a motion to dismiss the Massachusetts Litigation. We intend to defend ourselves vigorously against the allegations made in the complaint.

On May 8, 2014, a former employee filed a complaint against us in the Superior Court of Alameda County, California under the following caption: *Hung Duong v. ITT Educational Services, Inc., Sam Russell and Allison Hawkins* (the "Duong Litigation"). The complaint alleges, among other things, that we discriminated and retaliated against the plaintiff based upon his race, national origin, and age. In particular, the complaint contains allegations that:

- we violated the California Fair Employment and Housing Act ("FEHA") by terminating the plaintiff in retaliation for him opposing conduct that he believed constituted unlawful discrimination and harassment;
- we violated FEHA by failing to promote and terminating the Plaintiff due to his national origin, his age and his race; and
- we and two of our employees defamed the plaintiff by making false and defamatory publications and declarations that directly injured plaintiff's professional, personal, and business reputation causing injury.

The complaint sought:

- past and future economic damages, including but not limited to lost wages, benefits, costs of seeking alternative employment and lost earning capacity;
- past and future non-economic damages including, but not limited to, emotional distress, pain, suffering shame, humiliation, embarrassment and injury to reputation;
- punitive damages, pre-judgment interest, injunctive relief in the form of court ordered training and modification of policies;
- injunctive relief in the form of court-ordered training and/or modification of policies concerning harassment, discrimination and retaliation;
- declaratory relief that we acted unlawfully; and
- reasonable attorneys' fees and costs.

On February 19, 2016, we filed a motion for summary judgment and/or summary adjudication seeking to dismiss all claims. On May 9, 2016, the court granted us summary adjudication with regard to the plaintiff's claims for failure to promote and termination based upon national origin, race, and/or age. The court denied our motion with regard to the plaintiff's claims for retaliation and defamation. Trial on the matter was held in June 2016, and on June 30, 2016, the jury returned a verdict in favor of the plaintiff and awarded damages in the amount of $414. On July 1, 2016, the jury further awarded the plaintiff $500 in punitive damages.

The court has indicated that it will not enter judgment until it determines whether the damages award should be reduced by the amount applicable to plaintiff's defamation claim against one of the individual defendants based upon the affirmative defense of the common interest privilege. The court set a briefing schedule on that matter, with the hearing scheduled to take place on August 10, 2016. After the court resolves that issue, the court will enter judgment. After entry of judgment, we will have the opportunity to file a notice of appeal, a motion for judgment notwithstanding the verdict and/or a motion for a new trial. Plaintiff will have the opportunity to file a notice of motion to claim attorneys' fees and a memorandum of costs.

We have defended, and intend to continue to defend, ourselves vigorously against the allegations made in the complaint.

On July 20, 2016, a complaint was filed against us in a purported class action in the Superior Court for the State of California County of Alameda under the following caption: *Sean Miner, David Heumann, and Shawna Admire, individually and on behalf of all others similarly situated v. ITT Educational Services, Inc.* (the "Miner Litigation"). The complaint alleges, among other things, that under California law, we:

- failed to pay wages for all hours worked;
- failed to provide paid rest periods and failed to pay missed rest break premiums;
- failed to pay compensation due upon discharge from employment;
- failed to issue accurate wage statements;
- failed to reimburse for business-related cellphone usage;
- engaged in unfair, unlawful, or fraudulent business practices; and
- are liable for civil penalties under the California Labor Code Private Attorney General Act.

The purported class includes adjunct instructors employed by us during the period of January 12, 2012 through the trial date. The complaint seeks:

- an order that the action may proceed and be maintained as a class action;
- declaratory judgments;
- compensatory damages, including lost wages and other losses;
- pay for missed meal and rest periods;
- restitution;
- liquidated damages;
- interest;
- attorneys' fees, cost and expenses;
- civil and statutory penalties;
- injunctive relief; and
- all other relief as the court deems proper.

We intend to defend ourselves vigorously against the allegations made in the complaint.

Kevin M. Modany and Daniel M. Fitzpatrick were named in the New York Securities Litigation, Indiana Securities Litigation, Wilfred Litigation, Lawrence Litigation, McKee Litigation and Canfield Litigation and are named in the SEC Litigation. John E. Dean was also named in the Wilfred Litigation, Lawrence Litigation, McKee Litigation, and Canfield Litigation.

There can be no assurance that the ultimate outcome of the Leveski Litigation, CFPB Litigation, New Mexico Litigation, Gallien Litigation, SEC Litigation, Lipscomb Litigation, Massachusetts Litigation, Duong Litigation, Miner Litigation or other actions (including other actions under federal or state securities laws) will not have a material adverse effect on our financial condition, results of operations or cash flows.

Certain of our current and former officers and Directors are or may become a party in the actions described above and/or are or may become subject to government investigations. Our By-laws and Restated Certificate of Incorporation obligate us to indemnify our officers and Directors to the fullest extent permitted by Delaware law, provided that their conduct complied with certain requirements. We are obligated to advance defense costs to our officers and Directors, subject to the individual's obligation to repay such amount if it is ultimately determined that the individual was not entitled to indemnification. In addition, our indemnity obligation can, under certain circumstances, include indemnifiable judgments, penalties, fines and amounts paid in settlement in connection with those actions and investigations.

Government Investigations. We are subject to investigations and claims of non-compliance with regulatory standards and other actions brought by regulatory agencies. The more significant pending investigations, claims and actions are described below. If the results of any investigations, claims and/or actions are unfavorable to us, we may be required to pay money damages or be subject to fines, penalties, injunctions, operational limitations, loss of eligibility to participate in federal or state financial aid programs, debarments, additional oversight and reporting, or other civil and criminal sanctions. Those sanctions could have a material adverse effect on our financial condition, results of operations and cash flows.

In January, February, April and May 2014, in February, March and June 2015, and in July 2016, we received subpoenas and/or CIDs from the Attorneys General of Arkansas, Arizona, Colorado, Connecticut, District of Columbia, Hawaii, Idaho, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Tennessee and Washington under the authority of each state's consumer protection statutes. The Attorney General of the Commonwealth of Kentucky has informed us that it will serve as the point of contact for the multistate group to respond to questions relating to the subpoenas and CIDs. The subpoenas and CIDs contain broad requests for information and the production of documents related to our students and practices, including marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, programs, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates, as well as many other aspects of our business. We believe that several other companies in the proprietary postsecondary education sector have received similar subpoenas and CIDs. We are cooperating with the Attorneys General of the states involved. The ultimate outcome of the state Attorneys General investigation, however, could have a material adverse effect on our financial condition, results of operations and/or cash flows.

On April 1, 2016, we received a letter from the SEC requesting that we supply information voluntarily to the SEC. In the letter, the SEC states that it is conducting an inquiry of trading in our securities to determine if violations of the federal securities laws have occurred. The SEC's letter requests the voluntary production of communications and other documents that relate to, among other things, our October 16, 2014 filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and our May 29, 2015 filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. We are cooperating with the SEC in its inquiry, and we have provided documents and other information to the SEC in response to its requests, including our insider trading policies and information regarding individuals who were aware in advance of our filing of our 2013 Form 10-K and our 2014 Form 10-K. There can be no assurance, however, that the ultimate outcome of the SEC inquiry will not have a material adverse effect on our financial condition, results of operations and/or cash flows.

12. Risks and Uncertainties

Many of the amounts of assets, liabilities, revenue and expenses reported in our consolidated financial statements are based on estimates and assumptions that affect the amounts reported. We are subject to risks and uncertainties that could affect amounts reported in our consolidated financial statements in future periods. Our future performance, results of operations, financial condition, cash flows, liquidity, capital resources, ability to meet our obligations and ability to comply with covenants, metrics and regulatory requirements are subject to significant risks and uncertainties that could cause actual results to be materially different from our estimated results. Those significant risks and uncertainties include, but are not limited to, the following:

- The PEAKS Consolidation and CUSO Consolidation, which have and could negatively impact our compliance with:
  - the ED's financial responsibility measurements, primarily our institutions' composite score;
  - the financial requirements of certain state education and professional licensing authorities ("SAs"); and
  - the financial metrics to which we are subject under the PEAKS Program and the CUSO RSA.

  See Note 5 – Variable Interest Entities, Note 8 – Debt and Note 11 – Commitments and Contingencies, for additional information.
- Our institutions' failure to submit their 2013 audited consolidated financial statements and 2013 Compliance Audits to the ED by the due date resulted in sanctions imposed by the ED on our institutions that include, among other things, our institutions having to submit a letter of credit, being placed on heightened cash monitoring ("HCM") and being provisionally certified. We caused the ED Letter of Credit to be issued on October 31, 2014, but it has subsequently been replaced by the ED Agreement. The term of the ED Agreement ends on November 4, 2019. Pursuant to the ED Agreement, $79,708 was held in an escrow account by the ED as of June 30, 2016. The funds held are not available for use by us, and could be used by the ED if certain conditions are met. See Note 11 – Commitments and Contingencies for additional information. An institution that is provisionally certified by the ED must apply for and receive approval from the ED for any substantial change, before the institution can award, disburse or distribute Title IV Program funds based on the substantial change. Substantial changes generally include, but are not limited to:
  - the establishment of an additional location;
  - an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;
  - an addition of any non-degree program or short-term training program; or
  - an addition of a degree program by a proprietary institution.
- On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. The letter also states that we are required to provide certain additional information and reporting to the ED on a regular basis. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have been submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED.
- On June 6, 2016, we received the June 2016 ED Letter stating that the ED believes that certain actions of the ACICS (which actions are described below), represent an increased risk to the funds under the Title IV Programs that we administer on behalf of students. The June 2016 ED Letter indicates that due to this increased risk, the ED determined that the amount of

surety provided by us must be increased from approximately $79,708 to approximately $123,646. The June 2016 ED Letter states that we can provide the Additional ED Amount required to be held as additional ED Escrowed Funds or that we may provide a new letter of credit payable to the ED in the Additional ED Amount. The June 2016 ED Letter also provides that we must continue to comply with the other requirements imposed on us by the ED currently in effect. These other requirements are described further in our 2015 Form 10-K.

On July 6, 2016, the ED informed us that the ED will permit us to provide the Additional ED Amount in three equal installments of approximately $14,646 on each of July 20, 2016, September 30, 2016 and November 30, 2016. The ED stated that prior to the third installment due on November 30, 2016, the ED will evaluate our Title IV Program funding level for the 2016 fiscal year to determine if an adjustment in the scheduled payment amount can be made while ensuring that the amount held in surety represents at least 20% of our annual student aid funding. The ED subsequently indicated that the analysis of our annual student aid funding volume will not be the only factor that the ED considers in determining whether a change to the third installment is warranted, and it will also take into account the risk environment as it exists at that future time.

On July 20, 2016, we made the required first installment payment of $14,646 to the ED, which is being held as part of the ED Escrowed Funds under the ED Agreement.

- We are subject to various claims and contingencies, including those related to litigation, government investigations, business transactions, tax matters and employee-related matters, among others. See Note 11 – Commitments and Contingencies, for a further discussion of certain litigation and government investigations to which we are subject.
- We have significant guarantee obligations under the PEAKS Guarantee and the CUSO RSA (collectively, the “RSAs”). In 2015, we made payments of $30,090 under the PEAKS Guarantee, and $13,093, net of $521 of recoveries owed to us that we offset against amounts that we owed to the CUSO, related to the CUSO RSA. Based on various assumptions, including the historical and projected performance and collection of the PEAKS Trust Student Loans, we believe that we will make payments under the PEAKS Guarantee of approximately $10,800 in 2016 and approximately $1,200 in 2017. In addition, based upon various assumptions, including the historical and projected performance and collections of the private education loans under the CUSO Program, we believe that we will make payments under the CUSO RSA, net of recoveries, of approximately $15,700 in 2016 and $11,000 in 2017. See Note 8 – Debt and Note 11 – Commitments and Contingencies for a further discussion of the RSAs and estimated payment amounts.
- We have principal payments due under the Financing Agreement of $34,681 during the period July 1, 2016 through December 31, 2016.
- We had negative working capital as of June 30, 2016, December 31, 2015 and June 30, 2015.
- On April 20, 2016, the accrediting agency which accredits our ITT Technical Institute institutions informed us that, based on its review, the ITT Technical Institutes have not demonstrated compliance with certain accreditation standards. As a result, we must show cause why the ITT Technical Institutes’ accreditation should not be withdrawn by suspension or otherwise conditioned. We believe that the ITT Technical Institutes are in compliance with all accreditation standards, however, if the ITT Technical Institutes ultimately were to lose their accreditation, they would lose their eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business.
- On June 16, 2016, the ED released a staff report which recommended that ACICS’s petition for renewal of recognition be denied and that ACICS’s recognition be withdrawn. This recommendation represents one step in the overall process of reviewing an accrediting agency’s recognition. On June 24, 2016, the National Advisory Committee on Institutional Quality and Integrity (“NACIQI”) voted that ACICS no longer be recognized as an accrediting agency. Both the ED staff report and NACIQI recommendations were provided to the Senior ED official (“SDO”) for the actual decision. The SDO has 90 days from the date of the NACIQI meeting to make a final decision regarding ACICS.

  If the ED does not renew its recognition of the ACICS, all ITT Technical Institutes would no longer be accredited by a recognized accrediting agency. In such a case, the ED’s regulations provide that the ED may continue the eligibility of those institutions to participate in Title IV Programs, putting them on provisional certification status, for a period of up to 18 months, during which time the institutions could seek to obtain accreditation by another accrediting agency that is recognized by the ED. If the ACICS were to lose its recognition by the ED, we cannot assure you that all, or any, of our campuses comprising our institutions could obtain accreditation by another recognized accrediting agency within any specified timeframe. In addition, if our campuses remained on show cause status with the ACICS at the time the ED withdrew its recognition of the ACICS, we cannot predict what effect the show cause status would have on our campuses’ ability to become accredited by another recognized accrediting agency. If any of our campuses could not obtain accreditation by another recognized accrediting agency within the time period given to our institutions by the ED, those campuses would lose their eligibility to participate in Title IV Programs and we would likely be forced to close those campuses. Closing multiple campuses would have a material adverse effect on our financial condition, results of operations and cash flows. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

In addition to the ED, the approval status and in some cases funding provided by other agencies would be adversely affected by the institutions' loss of accreditation by a recognized accrediting agency, effective at the time the accreditation is lost, even during any period that the ED's provisional certification of the institutions continues. For example:

- some state authorizing agencies require institutions to be accredited by a recognized accrediting agency in order to operate or for students at those institutions to receive state funding;
- the Department of Defense requires institutions to be accredited by a recognized accrediting agency in order for military personnel attending those institutions to participate in DOD tuition assistance programs; and
- the Department of Veterans Affairs subjects programs at institutions that are not accredited by a recognized accrediting agency to a more stringent review process.

We cannot assure you what impact the ED's withdrawal of recognition of ACICS as a recognized accrediting agency would have on our campuses' approval status by other agencies or on our funding that those agencies provide to our campuses and their students.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our payment obligations for the Additional ED Escrowed Funds, payment obligations under the RSAs, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date that this Quarterly Report on Form 10-Q was filed with the SEC.

In order to generate additional cash from operations to provide the Additional ED Amount, in July 2016 we implemented certain modifications to our marketing and recruitment strategy which we expect will result in a significant decrease in our advertising expenditures for the six months ending December 31, 2016 compared to the same period in the prior year. The modifications also included a significant reduction in the number of recruiting representatives employed at local campus locations in favor of greater utilization of our centralized recruitment center. We believe that the reduction in advertising expenditures will contribute to a further decline in new student enrollments beginning with the September 2016 academic quarter as compared to prior periods. While we expect these modifications to result in an increase to our operating income and cash flow in the short-term, continued enrollment declines would have a negative long-term impact on our revenue, cash flows and financial condition.

We also believe that any reduction in cash and cash equivalents that may result from their use for the Additional ED Escrowed Funds, to make payments under the RSAs or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date that this Quarterly Report on Form 10-Q was filed with the SEC. Accordingly, our consolidated financial statements contained in this Quarterly Report on Form 10-Q were prepared on the basis that we will continue to operate as a going concern. There can be no assurance, however, that the ultimate outcome of those events, whether individually or in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. Additionally, our projections are estimates, which are based upon numerous assumptions, and therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

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

- *the impact of adverse actions by the ED related to certain deficiencies, ACICS actions, lawsuits against us and our failure to submit our 2013 audited financial statements and 2013 compliance audits to it by the due date;*
- *the impact of our consolidation of variable interest entities on us and the regulations, requirements and obligations that we are subject to;*
- *our inability to obtain any required amendments or waivers of noncompliance with covenants under the Financing Agreement* ;
- *our failure to maintain or renew required federal or state authorizations or accreditations of our campuses or programs of study;*
- *the risk that the ED does not renew its recognition of ACICS;*
- *the impact of any adverse actions taken against us due to our failure to comply with the extensive education laws and regulations and accreditation standards that we are subject to;*
- *our inability to remediate material weaknesses, or the discovery of additional material weaknesses, in our internal control over financial reporting;*
- *our exposure under our guarantees related to private education loan programs;*
- *the outcome of litigation, investigations and claims against us;*
- *issues related to the restatement of our financial statements for the first three quarters of each of 2014 and 2015, and for the 2014 fiscal year;*
- *the effects of the cross-default provisions in the Financing Agreement;*
- *changes in federal and state governmental laws and regulations with respect to education and accreditation standards, or the interpretation or enforcement of those laws and regulations, including, but not limited to, the level of government funding for, and our eligibility to participate in, student financial aid programs utilized by our students;*
- *business conditions in the postsecondary education industry and in the general economy;*
- *effects of any change in our ownership resulting in a change in control, including, but not limited to, the consequences of such changes on the accreditation and federal and state regulation of our campuses;*

- *our ability to implement our growth strategies;*
- *our ability to retain or attract qualified employees to execute our business and growth strategies;*
- *receptivity of students and employers to our existing program offerings and new curricula;*
- *our ability to repay moneys we have borrowed; and*
- *our ability to collect internally funded financing from our students.*

Readers are also directed to other risks and uncertainties discussed in other documents we file with the SEC, including, without limitation, those discussed in Item 1A. "Risk Factors." of our 2015 Form 10-K and in Part II, Item 1A."Risk Factors" of our Quarterly Report on Form 10-Q for the three months ended March 31, 2016 and of this report. We undertake no obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

Overview

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

- References in this document to "we", "us", "our", and "ITT/ESI" relate to ITT Educational Services, Inc. and its subsidiaries and any VIE that is consolidated into its consolidated financial statements, unless context requires or indicates otherwise.
- The terms "ITT Technical Institute" or "Daniel Webster College" (in singular or plural form) refer to an individual school or campus owned and operated by ITT/ESI, including its learning sites, if any. The term "institution" (in singular or plural form) means a main campus and its additional locations, branch campuses and/or learning sites, if any.
- References in this document to "education programs" refer to degree or diploma programs of study that have been, or may be, offered by an ITT Technical Institute or by Daniel Webster College; and references in this document to "training programs" refer to the non-degree, short-term programs that have been, or may be, offered through the Center for Professional Development @ ITT Technical Institute (the "CPD").

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with the same titled section contained in our 2015 Form 10-K filed with the SEC for a discussion of, among other matters, the following items:

- cash receipts from financial aid programs;
- nature of capital additions;
- debt;
- private education loan programs;
- variable interest entities; and
- federal regulations regarding:
  - timing of receipt of funds from the Title IV Programs;
  - percentage of applicable revenue that may be derived from the Title IV Programs;
  - return of Title IV Program funds for withdrawn students; and
  - Title IV Program loan cohort default rates.

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

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

Executive Summary

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

- new and total student enrollment in education programs decreased, in each case, compared to the prior year;
- we ceased new student enrollment at ten campus locations effective with the academic period that began in December 2015;
- we closed six campus locations;
- total operating expenses decreased $115.6 million, as compared to the prior year;
- we made payments aggregating $43.2 million under the PEAKS Guarantee and the CUSO RSA;
- we made principal, interest and fee payments aggregating $39.5 million under the Financing Agreement;

- we received a refund of federal income taxes of $18.2 million; and
- we reduced the amount of cash held as collateral or escrowed funds from $97.9 million to $91.2 million.

These events and factors are described further in the management's discussion and analysis of financial condition and results of operations section and in the Notes to Consolidated Financial Statements contained in the 2015 Form 10-K.

In the six months ended June 30, 2016:

- our new and total student enrollment in education programs decreased, in each case, compared to the prior year;
- we ceased new student enrollment at five campus locations effective with the academic period that began in June 2016;
- we closed one campus location in June 2016;
- total operating expenses decreased $64.6 million, as compared to the same prior year period;
- we made payments aggregating $17.8 million under the PEAKS Guarantee and the CUSO RSA; and
- we made principal, interest and fee payments aggregating $38.1 million under the Financing Agreement.

We continue to be subject to a number of payment obligations and risks and uncertainties, as described in this report. We believe that during the six months ending December 31, 2016, we will be required to make the following payments:

- $43.9 million to the ED as additional surety for the ED to maintain in an escrow account;
- $8.7 million under the PEAKS Guarantee and the CUSO RSA as described below; and
- $36.4 million as principal, interest and fee payments under the Financing Agreement as described below.

Further, we believe that during that time period:

- our new student enrollment may decline by 45% to 60%, as compared to the same period in 2015;
- ACICS will make a decision as to whether the ITT Technical Institutes' accreditation should be withdrawn by suspension or otherwise conditioned; and
- the ED will decide whether to renew or condition its recognition of ACICS.

See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information regarding the additional surety for the ED and Note 12 – Risks and Uncertainties of the Notes to Condensed Consolidated Financial Statement for additional information regarding the accreditation of the ITT Technical Institutes by ACICS and the recognition of ACICS by the ED.

We continue to have significant cash payment obligations in connection with the PEAKS Program and the CUSO Program. Our current estimate of the amount of future payments that we believe we will be required to make under the PEAKS Guarantee and the CUSO RSA are set forth in the table below under the column captioned "Estimated Payments from ITT/ESI." The PEAKS Trust is obligated, among other things, to repay the PEAKS Senior Debt, and the CUSO is obligated, among other things, to repay the CUSO Secured Borrowing Obligation. The amounts in the table below under the column captioned "Total Estimated Payments" represent (i) the estimated amount of the total PEAKS Senior Debt interest and principal payments to be made by the PEAKS Trust in the periods indicated; and (ii) the estimated amount of the payments to be made to the CUSO Participants by the CUSO in the periods indicated, less amounts that may be payable related to the Offset.

The amounts in the table below under the column captioned "Estimated Payments from Private Education Loans" constitute the difference between the amounts in the "Total Estimated Payments" column and the "Estimated Payments from ITT/ESI" column, and represent an estimate of the amount of payments that would be paid by borrowers or others, pursuant to the terms of the private education loans made under the PEAKS Program and the CUSO Program, and utilized by the PEAKS Trust to pay interest and principal on the PEAKS Senior Debt and by the CUSO to pay the CUSO Participants, as applicable. The amounts in the "Estimated Payments from Private Education Loans" do not include other amounts that may be paid by borrowers or others pursuant to the terms of the private education loans that are used by the PEAKS Trust or the CUSO, as applicable, to make other payments related to other obligations of those entities, such as administrative fees and expenses.

	Estimated Payments from ITT/ESI			Estimated Payments from Private Education Loans			Total Estimated Payments		
	PEAKS Program	CUSO Program (1)	Total	PEAKS Program	CUSO Program	Total	PEAKS Program	CUSO Program	Total
				(In millions)					
7/1 - 12/31/16	$ 3.6	$ 5.1	$ 8.7	$ 5.8	$ 3.4	$ 9.2	$ 9.4	$ 8.5	$ 17.9
2017	1.2	11.0	12.2	10.2	5.5	15.7	11.4	16.5	27.9
2018	0.0	13.0	13.0	10.0	4.9	14.9	10.0	17.9	27.9
2019 and later	10.5(2)	99.0(3)	109.5	10.1(4)	16.1	26.2	20.6	115.1	135.7
Total	$ 15.3	$ 128.1	$143.4	$ 36.1	$ 29.9	$ 66.0	$ 51.4	$ 158.0	$209.4

(1) Amounts in this column are net of the amount of recoveries from charged-off loans that we estimate will be owed to us, and that we will use to offset payments owed by us to the CUSO, in the periods indicated. See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for the estimated amounts of those recoveries.

(2) We believe that this amount will be paid by us in January 2020.
(3) We believe that this amount will be paid by us in approximately equal portions in each of 2019 through 2025.
(4) We believe that this amount will be paid in 2019 and in January 2020. After January 2020 (the maturity date for the PEAKS Trust Senior Debt), the PEAKS Trust will continue to collect on PEAKS Trust Student Loans that remain in repayment and collect recoveries on PEAKS Trust Student Loans that have been charged off, and those future collections are not reflected in this amount. The only obligation of the PEAKS Trust, at that time, will be the payment of the fees and expenses of the PEAKS Trust.

The estimated amounts and timing of future payments set forth in the table above are only estimates, are based on numerous assumptions and are subject to change. As with any estimate, as facts and circumstances change, the estimated amounts and timing could change. We made a number of assumptions in preparing the estimates, which assumptions may not be correct. See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements and "– Contractual Obligations and Other Commitments" for additional information regarding the assumptions and estimates.

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

Further, the estimated amount of future payments under the CUSO RSA assumes that an offset that we made in 2013 of certain payment obligations under the CUSO RSA against the CUSO's obligations owed to us under the Revolving Note will not be determined to have been improper. See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for a further discussion of that Offset. As of June 30, 2016, in the event that Offset is determined to be improper, we may be required to pay the CUSO approximately $10.7 million, net of approximately $1.0 million of recoveries from charged-off loans, which would be in addition to the estimated payment amounts set forth above. In the event that the Offset is determined to be improper and assuming it remained outstanding and accruing interest through 2027, we may be required to pay the CUSO up to approximately $33.0 million. If the Offset is determined to be improper, we would pursue collections from CUSO of amounts we believe are owed to us under the Revolving Note. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Revolving Note.

We also have debt service and principal repayment obligations under the Financing Agreement. We estimate that in 2016, the amount of those cash payment obligations will be approximately $74.5 million, of which $38.1 million was paid in the first six months of 2016. In the event of a default by us under the Financing Agreement, the lenders could declare the full amount of the Term Loans then outstanding to be immediately due and payable in full. Our obligations under the Financing Agreement are secured by a security interest in substantially all of our and our subsidiaries' assets, including a mortgage on all of our and our subsidiaries' owned real estate. The covenants under the Financing Agreement could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and/or to make certain payments under the RSAs.

In order to generate additional cash from operations to provide the Additional ED Amount, in July 2016 we implemented certain modifications to our marketing and recruitment strategy which we expect will result in a significant decrease in our advertising expenditures for the six months ending December 31, 2016 compared to the same period in the prior year. The modifications also included a significant reduction in the number of recruiting representatives employed at local campus locations in favor of greater utilization of our centralized recruitment center. We believe that the reduction in advertising expenditures will contribute to a further decline in new student enrollments beginning with the September 2016 academic quarter as compared to prior periods. While we expect these modifications to result in an increase to our operating income and cash flow in the short-term, continued enrollment declines would have a negative long-term impact on our revenue, cash flows and financial condition.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our payment obligations for the Additional ED Escrowed Funds, our CUSO RSA and PEAKS Guarantee payments, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date that this Quarterly Report on Form 10-Q was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use for the Additional ED Escrowed Funds, to make payments under the CUSO RSA and PEAKS Guarantee or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date that this Quarterly Report on Form 10-Q was filed with the SEC. Our projections, however, are estimates, which are based on numerous assumptions and, therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties. See Note 12 – Risks and Uncertainties of the Notes to Condensed Consolidated Financial Statements, Part I, Item 1A, "Risk Factors" in the 2015 Form 10-K and Part II, Item 1A. "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and in this report for a further discussion of those risks and uncertainties.

Consolidations and Core Operations

Our consolidated financial statements as of and for the three and six months ended June 30, 2016 include the results of operations, financial condition and cash flows of the CUSO and the PEAKS Trust, two variable interest entities that we were required to consolidate in our consolidated financial statements. Beginning on September 30, 2014, our consolidated financial statements include the CUSO, and beginning on February 28, 2013, our consolidated financial statements include the PEAKS Trust.

We included the CUSO in our consolidated financial statements beginning on September 30, 2014, because we were considered to have the power to direct the activities that most significantly impact the economic performance of the CUSO under ASC 810 on that date. In accordance with ASC 810, we included the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013, because we determined that was the first date that we had the power to direct the activities of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements. We do not, however, actively manage the operations of the CUSO or the PEAKS Trust, and the assets of the consolidated CUSO and the consolidated PEAKS Trust can only be used to satisfy the obligations of the CUSO and the PEAKS Trust, respectively. Our obligations under the CUSO RSA remain in effect, until all CUSO Student Loans are paid in full. Our obligations under the PEAKS Guarantee remain in effect, until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. See Note 8 – Debt and Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Unless otherwise noted, the information in this management's discussion and analysis of financial condition and results of operations is presented and discussed on a consolidated basis, including the CUSO and the PEAKS Trust as of and following the applicable consolidation dates. Certain information is also provided, however, regarding our results of operations on a basis that excludes the impact of the CUSO and the PEAKS Trust. We identify and describe our education programs and education-related services on this basis as our core operations ("Core Operations"). The presentation of the Core Operations financial measures differs from the presentation of our condensed consolidated financial measures determined in accordance with GAAP. Our management believes that the Core Operations information provides useful information to investors, because it:

- allows more meaningful information about our ongoing operating results;
- helps in performing trend analyses and identifying trends that may otherwise be masked or distorted by items that are not part of the Core Operations; and
- provides a higher degree of transparency of our core results of operations.

The following tables set forth selected data from our Statements of Operations for the three and six months ended June 30, 2016 and 2015 for:

- the Core Operations on a stand-alone basis;
- the PEAKS Trust on a stand-alone basis;
- the CUSO on a stand-alone basis; and
- the Core Operations, the CUSO and the PEAKS Trust consolidated in accordance with GAAP.

The information presented also constitutes the reconciliation of our non-GAAP Core Operations, PEAKS Trust and CUSO data to the related consolidated GAAP financial measures. Following the tables, we describe the effect of the PEAKS Consolidation and the CUSO Consolidation, as applicable, on the financial statement information presented, including the components attributable to the Core Operations, the PEAKS Trust and the CUSO.

	Three Months Ended June 30, 2016 (in Thousands)			
	Core Operations	PEAKS Trust	CUSO	GAAP Consolidated
Statement of Operations Data:				
Revenue	$ 173,439	$ 1,862	$ 1,023	$ 176,324
Costs and expenses:				
Cost of educational services	88,592	0	0	88,592
Student services and administrative expenses	70,778	508	419	71,705
Asset impairment	317	0	0	317
Legal and professional fees related to certain lawsuits, investigations and accounting matters	1,265	0	0	1,265
Provision for private education loan losses	0	1,063	106	1,169
Total costs and expenses	160,952	1,571	525	163,048
Operating income	12,487	291	498	13,276
Interest income	64	0	0	64
Interest (expense)	(1,665)	(1,422)	(3,049)	(6,136)
Income (loss) before provision for income taxes	$ 10,886	$ (1,131)	$(2,551)	$ 7,204

	Three Months Ended June 30, 2015 (in Thousands)			
	Core Operations	PEAKS Trust	CUSO	GAAP Consolidated
Statement of Operations Data:				
Revenue	$ 210,800	$ 2,246	$ 1,185	$ 214,231
Costs and expenses:				
Cost of educational services	101,865	0	0	101,865
Student services and administrative expenses	90,436	489	483	91,408
Legal and professional fees related to certain lawsuits, investigations and accounting matters	6,005	0	0	6,005
Provision (benefit) for private education loan losses	0	4,615	(1,302)	3,313
Total costs and expenses	198,306	5,104	(819)	202,591
Operating income (loss)	12,494	(2,858)	2,004	11,640
Interest income	22	0	0	22
Interest (expense)	(3,592)	(2,826)	(3,573)	(9,991)
Income (loss) before provision for income taxes	$ 8,924	$ (5,684)	$(1,569)	$ 1,671

	Six Months Ended June 30, 2016			
	Core Operations	PEAKS Trust	CUSO	GAAP Consolidated
	(in Thousands)			
Statement of Operations Data:				
Revenue	$ 361,854	$ 3,864	$ 2,105	$ 367,823
Costs and expenses:				
Cost of educational services	180,555	0	0	180,555
Student services and administrative expenses	147,822	1,003	779	149,604
Asset impairment	985	0	0	985
Legal and professional fees related to certain lawsuits, investigations and accounting matters	6,136	0	0	6,136
Provision for private education loan losses	0	2,546	501	3,047
Total costs and expenses	335,498	3,549	1,280	340,327
Operating income	26,356	315	825	27,496
Interest income	132	0	0	132
Interest (expense)	(3,839)	(3,180)	(6,216)	(13,235)
Income (loss) before provision for income taxes	$ 22,649	$ (2,865)	$(5,391)	$ 14,393

	Six Months Ended June 30, 2015			
	Core Operations	PEAKS Trust	CUSO	GAAP Consolidated
	(in Thousands)			
Statement of Operations Data:				
Revenue	$ 437,298	$ 4,659	$ 2,249	$ 444,206
Costs and expenses:				
Cost of educational services	205,418	0	0	205,418
Student services and administrative expenses	179,751	1,030	879	181,660
Legal and professional fees related to certain lawsuits, investigations and accounting matters	13,291	0	0	13,291
Provision (benefit) for private education loan losses	0	5,418	(861)	4,557
Total costs and expenses	398,460	6,448	18	404,926
Operating income (loss)	38,838	(1,789)	2,231	39,280
Interest income	35	0	0	35
Interest (expense)	(7,080)	(6,085)	(7,214)	(20,379)
Income (loss) before provision for income taxes	$ 31,793	$ (7,874)	$(4,983)	$ 18,936

Following the applicable Consolidation, our revenue consists of:

- revenue from the Core Operations, primarily from tuition, tool kit sales and student fees;
- student loan interest income on the Private Education Loans, which is the accretion of the accretable yield on the Private Education Loans; and
- administrative fees earned by the CUSO.

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

- expenses related to the Core Operations, including marketing expenses, an expense for uncollectible accounts and administrative expenses incurred primarily at our corporate headquarters; and
- expenses incurred by the PEAKS Trust and the CUSO, primarily related to fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO.

Following the applicable Consolidation, our provision for private education loan losses in a reporting period represents the increase in the allowance for loan losses that occurred during that period, offset by recoveries from Private Education Loans that were charged off prior to the applicable Consolidation. The allowance for loan losses is the difference between the carrying value and the total present value of the expected principal and interest collections of each loan pool of the Private Education Loans, discounted by the loan pool's effective interest rate as of June 30, 2016 or 2015, as applicable.

Following the applicable Consolidation, our interest expense includes:

- interest expense from matters related to the Core Operations, primarily the interest expense on the outstanding balance under the Financing Agreement;
- interest expense on the PEAKS Senior Debt, which includes the contractual interest obligation and the accretion of the discount on the PEAKS Senior Debt; and
- interest expense on the CUSO Secured Borrowing Obligation, which includes the amount of interest expense on the CUSO Student Loans that is accrued for payment to the owners of the CUSO and the accretion of the discount of the adjustment associated with accounting for the CUSO Secured Borrowing Obligation at fair value upon the CUSO Consolidation.

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

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

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

Background

We are a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. As of June 30, 2016, we were offering:

- master, bachelor and associate degree programs to approximately 40,000 students at ITT Technical Institute and Daniel Webster College locations; and
- short-term information technology and business learning solutions for career advancers and other professionals.

As of June 30, 2016, we had 137 campus locations in 39 states. In addition, we offered one or more of our online programs to students who are located in all 50 states and the District of Columbia. We regularly review the efficiency of our campus locations. We closed one campus location in the three months ended June 30, 2016 and we expect to close one campus location in the six months ending December 31, 2016 based upon the expected date that the remaining students at that location are scheduled to complete their programs of study. As previously reported, in 2015 we closed six campus locations.

In addition, as previously reported, we ceased accepting new student enrollment at 10 campus locations, effective with the academic quarter that began in December 2015, and are in the process of evaluating the local demands for those markets. As a result of a recent internal operational review, we ceased accepting new student enrollment at an additional five campus locations, effective with the academic quarter that began in June 2016, and will not be accepting new student enrollment at one campus location effective with the academic quarter that begins in September 2016. These six campus locations represented approximately 1.8% of our new student enrollments, based on our new student enrollment results in the first quarter of 2016. During the next 12 to 18 months, we will be evaluating the local demands for these markets. During this evaluation period, we do not believe there will be any disruption to ongoing course work for continuously enrolled students, as we will continue to teach classes for those students.

As used in this document, the term "Affected Campus Locations," includes the following:

- the four campus locations that we closed in 2014;
- the six campus locations that we closed in 2015;
- the 10 campus locations at which we ceased accepting new student enrollment, effective with the academic quarter that began in December 2015;
- the one campus location that we closed in the three months ended June 30, 2016; and

Table of Contents

- the five campus locations at which we ceased accepting new student enrollment, effective with the academic quarter that began in June 2016.

All of our campus locations are authorized by the applicable education authorities of the states in which they operate, and are accredited by an accrediting commission recognized by the ED. We design our education programs, after consultation with employers and other constituents, to help graduates prepare for careers in various fields involving their areas of study. We have provided career-oriented education programs since 1969 under the “ITT Technical Institute” name and since 2009 under the “Daniel Webster College” name. In addition, through the CPD, we offer training programs to career advancers and other professionals.

While our long-term strategy continues to be the pursuit of multiple opportunities for growth, our ability to execute on this strategy is subject to extensive regulations and restrictions, as discussed further in our 2015 Form 10-K and has been impacted by declining enrollments; payments for guarantee obligations, loan repayments and surety requirements; and other factors.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, expenses, and contingent assets and liabilities. Actual results may differ from those estimates and judgments under different assumptions or conditions. We have discussed the critical accounting policies that we believe affect our more significant estimates and judgments used in the preparation of our consolidated financial statements in the “Management’s Discussion and Analysis of Financial Condition and Results of the Operations – Critical Accounting Policies and Estimates” section of our 2015 Form 10-K, filed with the SEC.

New Accounting Guidance

For a discussion of applicable new accounting guidance, see Note 2 – New Accounting Guidance and Adoption of New Accounting Guidance of the Notes to Condensed Consolidated Financial Statements.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of educational services	50.2%	47.5%	49.1%	46.2%
Student services and administrative expenses	40.7%	42.7%	40.7%	40.9%
Asset impairment	0.2%	0.0%	0.3%	0.0%
Legal and professional fees related to certain lawsuits, investigations and accounting matters	0.7%	2.8%	1.7%	3.0%
Provision for private education loan losses	0.7%	1.5%	0.8%	1.0%
Operating income	7.5%	5.4%	7.5%	8.8%
Interest (expense), net	(3.4%)	(4.7%)	(3.6%)	(4.6%)
Income before provision for income taxes	4.1%	0.8%	3.9%	4.3%

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

Total Student Enrollment in Education Programs as of:	2016 Total Student Enrollment In Education Programs	2016 (Decrease) from Prior Year	2015 Total Student Enrollment In Education Programs	2015 (Decrease) from Prior Year
March 31	43,293(1)	(15.4%)	51,201	(10.4%)
June 30	40,015(1)	(16.4%)	47,874	(13.7%)
September 30	Not Applicable	Not Applicable	48,231(1)	(15.5%)
December 31	Not Applicable	Not Applicable	44,922(1)	(16.3%)

(1) Amount reflects the revised definition of a new student that was effective beginning in the quarter ended September 30, 2015, as described below. The number of students that were not included as a result of using the revised definition of a new student was approximately 1% or less of the total student enrollment as of each of these dates.

The following table sets forth our total student enrollment in education programs as of the dates indicated, excluding the Affected Campus Locations:

Total Student Enrollment in Education Programs as of:	2016 Total Student Enrollment In Education Programs	2016 (Decrease) from Prior Year	2015 Total Student Enrollment In Education Programs	2015 (Decrease) from Prior Year
March 31	41,906(1)	(13.3%)	48,360	(9.1%)
June 30	38,993(1)	(14.1%)	45,391	(12.6%)
September 30	Not Applicable	Not Applicable	46,113(1)	(14.0%)
December 31	Not Applicable	Not Applicable	43,275(1)	(14.3%)

(1) Amount reflects the revised definition of a new student that was effective beginning in the quarter ended September 30, 2015, as described below.

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

- for the first time at that campus;
- after graduating in a prior academic term from a different education program at that campus; or
- after having withdrawn or been terminated from an education program at that campus.

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

- exclude those students in our reported new student enrollment for the quarter in which they began attending class, but had not yet continued to attend beyond the applicable time described above;
- exclude those same students from our reported total student enrollment for that same quarter; and
- if those students continued to attend beyond the applicable time described above, include those same students in our reported new and total student enrollment for the subsequent quarter.

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

New Student Enrollment in Education Programs in the Three Months Ended (1) :	2016 New Student Enrollment In Education Programs	2016 (Decrease) from Prior Year	2015 New Student Enrollment In Education Programs	2015 (Decrease) from Prior Year
March 31	11,788	(16.4%)	14,104	(15.8%)
June 30	9,910	(21.6%)	12,638	(18.6%)
September 30	Not Applicable	Not Applicable	14,943	(18.4%)
December 31	Not Applicable	Not Applicable	10,478	(17.1%)
Total for the year	Not Applicable	Not Applicable	52,163	(17.5%)

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

We believe that the 21.6% decrease in new student enrollment in education programs in the three months ended June 30, 2016 compared to the three months ended June 30, 2015 and the 16.4% decrease in new student enrollment in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 were primarily due to:

- the reduction in the number of campus locations that were accepting new students (see the table below for information related to new student enrollment excluding the Affected Campus Locations);
- the revised definition of a new student;
- a decrease in the rate at which prospective students who inquired about our education programs actually applied for enrollment in the three months ended June 30, 2016 and March 31, 2016 compared to the same prior year periods;
- a decrease in the rate at which prospective students who applied for enrollment actually began attending classes in their education programs in the three months ended June 30, 2016 and March 31, 2016 compared to the same prior year periods;
- greater sensitivity to the cost of postsecondary education;
- uncertainty about the value of a postsecondary education due to the prolonged economic and labor market disruptions; and
- the current political environment and continued negative media related to our industry.

The following table sets forth our new student enrollment in education programs in the periods indicated, excluding the Affected Campus Locations:

New Student Enrollment in Education Programs in the Three Months Ended (1) :	2016 New Student Enrollment In Education Programs	2016 (Decrease) from Prior Year	2015 New Student Enrollment In Education Programs	2015 (Decrease) from Prior Year
March 31	11,549	(13.7%)	13,378	(15.2%)
June 30	9,846	(18.3%)	12,048	(17.5%)
September 30	Not Applicable	Not Applicable	14,198	(17.7%)
December 31	Not Applicable	Not Applicable	10,262	(14.0%)
Total for the year	Not Applicable	Not Applicable	49,886	(16.2%)

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

In order to generate additional cash from operations to provide the Additional ED Amount, in July 2016 we implemented certain modifications to our marketing and recruitment strategy which we expect will result in a significant decrease in our advertising expenditures for the six months ending December 31, 2016 compared to the same period in the prior year. The modifications also included a significant reduction in the number of recruiting representatives employed at local campus locations in favor of greater utilization of our centralized recruitment center. We believe that the reduction in advertising expenditures will contribute to a further decline in new student enrollments beginning with the September 2016 academic quarter as compared to prior periods. While we expect these modifications to result in an increase to our operating income and cash flow in the short-term, continued enrollment declines would have a negative long-term impact on our revenue, cash flows and financial condition.

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

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

	Student Persistence as of:			
Year	March 31	June 30	September 30	December 31
2016	70.1%	69.5%	Not Applicable	Not Applicable
2015	69.2%	68.8%	69.5%	71.4%
2014	70.2%	70.0%	69.9%	71.8%

The following table sets forth the rates of our students' persistence as of the dates indicated, excluding the Affected Campus Locations:

	Student Persistence as of:			
Year	March 31	June 30	September 30	December 31
2016	70.1%	69.6%	Not Applicable	Not Applicable
2015	69.3%	68.9%	70.3%	71.6%
2014	70.4%	70.1%	70.1%	71.9%

We believe that the increase in student persistence as of June 30, 2016 compared to June 30, 2015 and as of March 31, 2016 compared to March 31, 2015 was primarily due to an improvement in student retention in certain programs of study in the three months ended June 30, 2016 and March 31, 2016 compared to the same prior year periods and, to a lesser extent, a decrease in graduates in the three months ended June 30, 2016 and March 31, 2016 compared to the same prior year periods.

Three Months Ended June 30, 2016 Compared with Three Months Ended June 30, 2015. Revenue decreased $37.9 million, or 17.7%, to $176.3 million in the three months ended June 30, 2016 compared to $214.2 million in the three months ended June 30, 2015. The primary factor that contributed to this decrease was a 15.4% decrease in total student enrollment as of March 31, 2016, compared to March 31, 2015.

Revenue of the PEAKS Trust is comprised of interest income on the PEAKS Trust Student Loans, which is the accretion of the accretable yield of the PEAKS Trust Student Loans. Revenue of the PEAKS Trust decreased $0.4 million, or 17.1%, to $1.9 million in the three months ended June 30, 2016 compared to $2.2 million in the three months ended June 30, 2015. Revenue of the CUSO is comprised of (i) interest income on the CUSO Student Loans, which is the accretion of the accretable yield on the CUSO Student Loans, and (ii) an administrative fee paid by the CUSO Participants to the CUSO on a monthly basis ("Administrative Fee"). Revenue attributable to the interest income on the CUSO Student Loans was $0.7 million and revenue attributable to the Administrative Fee was $0.3 million in the three months ended June 30, 2016. Revenue attributable to the interest income on the CUSO Student Loans was $0.7 million and revenue attributable to the Administrative Fee was $0.5 million in the three months ended June 30, 2015.

Cost of educational services decreased $13.3 million, or 13.0%, to $88.6 million in the three months ended June 30, 2016 compared to $101.9 million in the three months ended June 30, 2015. The primary factors that contributed to this decrease were a decrease in compensation and benefits costs resulting from fewer employees, a decrease in the cost of course supplies and decreases in campus operating and occupancy costs as a result of fewer physical locations and reduced square footage, which were partially offset by an increase in legal expenses related to legal matters that are representative of those normally incurred in the ordinary course of business.

Cost of educational services as a percentage of revenue increased 270 basis points to 50.2% in the three months ended June 30, 2016 compared to 47.5% in the three months ended June 30, 2015. The primary factors that contributed to this increase were a decline in revenue and an increase in legal expenses related to legal matters that are representative of those normally incurred in the ordinary course of business, which were partially offset by decreases in compensation and benefit costs, the cost of course supplies and campus operating and occupancy costs.

Student services and administrative expenses decreased $19.7 million, or 21.6%, to $71.7 million in the three months ended June 30, 2016 compared to $91.4 million in the three months ended June 30, 2015. The principal causes of this decrease were decreases in media advertising expenses, compensation and benefits costs and bad debt expense. Approximately $0.5 million of expenses of the PEAKS Trust and $0.4 million of expenses of the CUSO were included in student services and administrative expenses in the three months ended June 30, 2016 compared to $0.5 million of PEAKS Trust expenses and $0.5 million of CUSO expenses in the three months ended June 30, 2015. Those expenses primarily represented fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO. The amount of the fees for servicing the PEAKS Trust Student

Loans are based on the outstanding balance of non-defaulted PEAKS Trust Student Loans, and the amount of the other administrative fees and expenses are based on the outstanding principal balance of the PEAKS Senior Debt. The amount of the fees for servicing the CUSO Student Loans is based on the number of loans that have not defaulted and the payment status of the loans, and the amount of the other administrative fees and expenses are based on the terms of the agreements for administrative services provided to the CUSO by third parties.

Student services and administrative expenses decreased to 40.7% of revenue in the three months ended June 30, 2016 compared to 42.7% of revenue in the three months ended June 30, 2015. The principal causes of this decrease were decreases in media advertising expenses, compensation and benefit costs and bad debt expense, which were partially offset by a decline in revenue. Bad debt expense as a percentage of revenue increased to 4.3% in the three months ended June 30, 2016 compared to 4.1% in the three months ended June 30, 2015.

In the three months ended June 30, 2016, we recorded an impairment charge of $0.3 million for the impairment of certain long-lived assets at one campus location. The amount of the impairment equaled the carrying value of assets that were not expected to be recoverable. We did not record an impairment charge in the three months ended June 30, 2015 for long-lived assets.

Legal and professional fees related to certain lawsuits, investigations and accounting matters decreased $4.7 million, or 78.9%, to $1.3 million in the three months ended June 30, 2016 compared to $6.0 million in the three months ended June 30, 2015. In the three months ended June 30, 2016, these expenses related primarily to legal and professional fees associated with:

- the Lipscomb Litigation; and
- the securities class action and shareholder derivative lawsuits filed against us.

In the three months ended June 30, 2015, these expenses related primarily to legal fees associated with:

- the CFPB Litigation; and
- the SEC Litigation.

See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements, for further information about those matters.

In the three months ended June 30, 2016, we recorded a provision for private education loan losses of $1.2 million compared to $3.3 million in the three months ended June 30, 2015. The provision for private education loan losses represents the increase in the allowance for loan losses on the Private Education Loans that occurred during the respective period, partially offset by recoveries received from private education loans that were charged off prior to the CUSO Consolidation. See Note 6 – Private Education Loans of the Notes to Condensed Consolidated Financial Statements, for a discussion of the allowance for loan losses.

Operating income increased $1.6 million, or 14.1%, to $13.3 million in the three months ended June 30, 2016 compared to $11.6 million in the three months ended June 30, 2015, primarily as a result of the impact of the factors discussed above in connection with:

- revenue;
- cost of educational services;
- student services and administrative expenses;
- legal and professional fees related to certain lawsuits, investigations and accounting matters; and
- the provision for private education loan losses.

Our operating margin increased to 7.5% in the three months ended June 30, 2016 compared to 5.4% in the three months ended June 30, 2015, primarily as a result of the impact of the factors discussed above.

Interest income was approximately $0.1 million in the three months ended June 30, 2016 and less than $0.1 million in the three months ended June 30, 2015. Interest expense decreased $3.9 million, or 38.6%, to $6.1 million in the three months ended June 30, 2016 compared to $10.0 million in the three months ended June 30, 2015, primarily due to:

- a decrease of $1.8 million of interest expense related to the Financing Agreement primarily due to lower outstanding borrowings in the three months ended June 30, 2016 compared to the three months ended June 30, 2015;

- a decrease of $1.4 million of interest expense on the PEAKS Senior Debt due to a decrease in the accretion of debt discount and a decrease in the contractual interest obligation resulting from lower outstanding principal balances in the three months ended June 30, 2016 compared to the three months ended June 30, 2015; and
- a decrease of $0.5 million of interest expense related to the CUSO Secured Borrowing Obligation primarily due to a decrease in the amount of the CUSO Secured Borrowing Obligation in the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for further information about interest expense and effective interest rates under the Financing Agreement and PEAKS Senior Debt.

Our combined federal and state effective income tax rate was 40.2% in the three months ended June 30, 2016 compared to 57.2% in the three months ended June 30, 2015. The effective income tax rate was lower in the three months ended June 30, 2016, primarily due to higher pre-tax income as compared to the three months ended June 30, 2015.

Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015. Revenue decreased $76.4 million, or 17.2%, to $367.8 million in the six months ended June 30, 2016 compared to $444.2 million in the six months ended June 30, 2015. The primary factors that contributed to this decrease included:

- a 15.4% decrease in total student enrollment as of March 31, 2016 compared to March 31, 2015;
- a 16.3% decrease in total student enrollment as of December 31, 2015 compared to December 31, 2014; and
- a 16.4% decrease in total student enrollment as of June 30, 2016 compared to June 30, 2015.

Revenue of the PEAKS Trust decreased $0.8 million, or 17.1%, to $3.9 million in the six months ended June 30, 2016 compared to $4.7 million in the six months ended June 30, 2015. Revenue attributable to the interest income on the CUSO Student Loans was $1.4 million and revenue attributable to the Administrative Fee was $0.7 million in the six months ended June 30, 2016. Revenue attributable to the interest income on the CUSO Student Loans was $1.4 million and revenue attributable to the Administrative Fee was $0.9 million in the six months ended June 30, 2015.

Cost of educational services decreased $24.9 million, or 12.1%, to $180.6 million in the six months ended June 30, 2016 compared to $205.4 million in the six months ended June 30, 2015. The primary factors that contributed to this decrease were a decrease in compensation and benefits costs resulting from fewer employees, decreases in campus operating and occupancy costs as a result of fewer physical locations and reduced square footage and a decrease in the cost of course supplies, which were partially offset by an increase in legal expenses related to legal matters that are representative of those normally incurred in the ordinary course of business.

Cost of educational services as a percentage of revenue increased 290 basis points to 49.1% in the six months ended June 30, 2016 compared to 46.2% in the six months ended June 30, 2015. The primary factors that contributed to this increase were a decline in revenue and an increase in legal expenses related to legal matters that are representative of those normally incurred in the ordinary course of business, which were partially offset by decreases in compensation and benefit costs, campus operating and occupancy costs and the cost of course supplies.

Student services and administrative expenses decreased $32.1 million, or 17.6%, to $149.6 million in the six months ended June 30, 2016 compared to $181.7 million in the six months ended June 30, 2015. The principal causes of this decrease were decreases in media advertising expenses, compensation and benefits costs and bad debt expense. Approximately $1.0 million of expenses of the PEAKS Trust and $0.8 million of expenses of the CUSO were included in student services and administrative expenses in the six months ended June 30, 2016 compared to $1.0 million of PEAKS Trust expenses and $0.9 million of CUSO expenses in the six months ended June 30, 2015. Those expenses primarily represented fees for servicing the Private Education Loans and various other administrative fees and expenses of the PEAKS Trust and the CUSO. The amount of the fees for servicing the PEAKS Trust Student Loans are based on the outstanding balance of non-defaulted PEAKS Trust Student Loans, and the amount of the other administrative fees and expenses are based on the outstanding principal balance of the PEAKS Senior Debt. The amount of the fees for servicing the CUSO Student Loans is based on the number of loans that have not defaulted and the payment status of the loans, and the amount of the other administrative fees and expenses are based on the terms of the agreements for administrative services provided to the CUSO by third parties.

Student services and administrative expenses decreased to 40.7% of revenue in the six months ended June 30, 2016 compared to 40.9% of revenue in the six months ended June 30, 2015. The principal causes of this decrease were decreases in media advertising expenses, compensation and benefits costs and bad debt expense, which were partially offset by a decline in revenue. Bad debt expense as a percentage of revenue decreased to 4.0% in the six months ended June 30, 2016 compared to 4.7% in the six months ended June 30, 2015.

In the six months ended June 30, 2016, we recorded an impairment charge of $1.0 million for the impairment of certain long-lived assets at multiple campus locations. The amount of the impairment equaled the carrying value of assets that were not expected to be recoverable. We did not record an impairment charge in the six months ended June 30, 2015 for long-lived assets.

Legal and professional fees related to certain lawsuits, investigations and accounting matters decreased $7.2 million, or 53.8%, to $6.1 million in the six months ended June 30, 2016 compared to $13.3 million in the six months ended June 30, 2015. In the six months ended June 30, 2016, these expenses related primarily to legal and professional fees associated with:

- the SEC Litigation;
- the Massachusetts Litigation;
- the Lipscomb Litigation;
- the CFPB Litigation; and
- the New Mexico Litigation.

In the six months ended June 30, 2015, these expenses related primarily to legal and professional fees associated with:

- the CFPB Litigation;
- the SEC Litigation;
- the securities class action and shareholder derivative lawsuits filed against us;
- certain accounting matters; and
- the investigation of us by various states Attorneys General.

See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements, for further information about those matters.

In the six months ended June 30, 2016, we recorded a provision for private education loan losses of $3.0 million compared to $4.6 million in the six months ended June 30, 2015. The provision for private education loan losses represented the increase in the allowance for loan losses on the Private Education Loans that occurred during the respective period, partially offset by recoveries received from private education loans that were charged off prior to the CUSO Consolidation. See Note 6 – Private Education Loans of the Notes to Condensed Consolidated Financial Statements, for a discussion of the allowance for loan losses.

Operating income decreased $11.8 million, or 30.0%, to $27.5 million in the six months ended June 30, 2016 compared to $39.3 million in the six months ended June 30, 2015, primarily as a result of the impact of the factors discussed above in connection with:

- revenue;
- cost of educational services;
- student services and administrative expenses;
- legal and professional fees related to certain lawsuits, investigations and accounting matters; and
- the provision for private education loan losses.

Our operating margin decreased to 7.5% in the six months ended June 30, 2016 compared to 8.8% in the six months ended June 30, 2015, primarily as a result of the impact of the factors discussed above.

Interest income was approximately $0.1 million in the six months ended June 30, 2016 compared to less than $0.1 million in the six months ended June 30, 2015. Interest expense decreased $7.1 million, or 35.1%, to $13.2 million in the six months ended June 30, 2016 compared to $20.4 million in the six months ended June 30, 2015, primarily due to:

- a decrease of $3.0 million of interest expense related to the Financing Agreement primarily due to lower outstanding borrowings in the six months ended June 30, 2016 compared to the six months ended June 30, 2015;
- a decrease of $2.9 million of interest expense on the PEAKS Senior Debt due to a decrease in the accretion of debt discount and a decrease in the contractual interest obligation resulting from lower outstanding principal balances in the six months ended June 30, 2016 compared to the six months ended June 30, 2015; and
- a decrease of $1.0 million of interest expense related to the CUSO Secured Borrowing Obligation primarily due to a decrease in the amount of the CUSO Secured Borrowing Obligation in the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for further information about interest expense and effective interest rates under the Financing Agreement and PEAKS Senior Debt.

Our combined federal and state effective income tax rate was 41.5% in the six months ended June 30, 2016 compared to 41.0% in the six months ended June 30, 2015. The effective income tax rate was slightly higher in the six months ended June 30, 2016, primarily due to lower pre-tax income in the six months ended June 30, 2016, as compared to the six months ended June 30, 2015.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents were $78.0 million as of June 30, 2016 compared to $130.9 million as of December 31, 2015 and $124.6 million as of June 30, 2015.

The $52.9 million decrease in cash and cash equivalents as of June 30, 2016 compared to December 31, 2015, was primarily due to repayments of principal totaling approximately:

- $35.0 million under the Financing Agreement;
- $12.7 million related to the PEAKS Senior Debt; and
- $9.5 million related to the CUSO Secured Borrowing Obligation.

The decrease in cash and cash equivalents as of June 30, 2016 compared to December 31, 2015 was partially offset by net cash flows generated from operating activities of $5.6 million.

The $46.6 million decrease in cash and cash equivalents as of June 30, 2016 compared to June 30, 2015, was primarily due to repayments of principal totaling approximately:

- $60.3 million under the Financing Agreement;
- $27.5 million related to the PEAKS Senior Debt; and
- $9.5 million related to the CUSO Secured Borrowing Obligation.

The decrease in cash and cash equivalents as of June 30, 2016 compared to June 30, 2015 was partially offset by net cash flows generated from operating activities of $50.2 million. See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for a discussion of the payments we made related to the Financing Agreement and PEAKS Senior Debt and Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements, for a discussion of the CUSO Secured Borrowing Obligation.

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

As of June 30, 2016, approximately $82.6 million was held as cash collateral or escrowed funds for our obligations to the ED, an insurance carrier and one letter of credit to a state regulatory agency, compared to $82.5 million as of December 31, 2015. As of June 30, 2015, approximately $89.3 million was held as cash collateral for our obligations under letters of credit to the ED, an insurance carrier and a state regulatory agency. As a result of replacing the letters of credit to the ED and our insurance carrier with escrowed funds and cash collateral in December 2015, we reduced the amount of funds held by third parties related to these matters by approximately $7.3 million. The amount of cash collateral and escrowed funds are reflected in the line item Collateral deposits on our Condensed Consolidated Balance Sheets. These funds are not available for use by us, and could be used by the third parties to satisfy our obligations if certain conditions are met. The fact that a significant amount of our cash is held by third parties could also negatively affect our ability to satisfy the financial metrics of the ED, SAs and ACs to which we are subject.

On June 6, 2016, we received the June 2016 ED Letter stating that the ED believes that certain actions of the ACICS (which actions are described in Note 12 – Risks and Uncertainties of the Notes to Condensed Consolidated Financial Statements), represent an increased risk to the funds under the Title IV Programs that we administer on behalf of students. The June 2016 ED Letter indicates that due to this increased risk, the ED determined that the amount of surety provided by us must be increased from $79.7 million to $123.6 million. The June 2016 ED Letter states that we can provide the Additional ED Amount required to be held as additional ED Escrowed Funds or that we may provide a new letter of credit payable to the ED in the Additional ED Amount. The June 2016 ED Letter also provides that we must continue to comply with the other requirements imposed on us by the ED currently in effect. These other requirements are described further in our 2015 Form 10-K.

On July 6, 2016, the ED informed us that the ED will permit us to provide the Additional ED Amount in three equal installments of $14.6 million on each of July 20, 2016, September 30, 2016 and November 30, 2016. The ED stated that prior to the third installment due on November 30, 2016, the ED will evaluate our Title IV Program funding level for the 2016 fiscal year to determine if an adjustment in the scheduled payment amount can be made while ensuring that the amount held in surety represents at least 20% of our annual student aid funding. The ED subsequently indicated that the analysis of our annual student aid funding volume will not be the only factor that the ED considers in determining whether a change to the third installment is warranted, and it will also take into account the risk environment as it exists at that future time.

On July 20, 2016, we made the required first installment payment of $14.6 million to the ED, which is being held as part of the ED Escrowed Funds under the ED Agreement.

Pursuant to the CUSO RSA, we are required to maintain collateral to secure our guarantee obligation in an amount equal to a percentage of the outstanding balance of the private education loans disbursed to our students under the CUSO Program. As of June 30, 2016, December 31, 2015 and June 30, 2015, the total amount of this collateral was approximately $8.6 million, and was included in the line item Collateral deposits on our Condensed Consolidated Balance Sheets. The funds held as cash collateral related to the CUSO RSA are not available for use by us, and could be withdrawn by the CUSO, in which case we would be required to deposit that amount of cash in the account to maintain the required level of collateral. The CUSO has notified us that it has taken control of the restricted account containing the cash collateral, as described further in Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

We were not in compliance with certain covenants under the CUSO RSA as of June 30, 2016 and, as a result, will be required to deposit approximately $0.2 million as additional collateral in August 2016. We do not expect to be in compliance with these covenants in the foreseeable future, however based on the estimated principal balance of the private education loans under the CUSO Program, we do not believe that we will be required to deposit any additional collateral.

Restricted cash of $5.4 million as of June 30, 2016 included approximately $1.5 million of funds held by the PEAKS Trust and $3.1 million of funds held by the CUSO. As of December 31, 2015, restricted cash of $6.0 million included approximately $1.5 million of funds held by the PEAKS Trust and $4.0 million of funds held by the CUSO. Restricted cash of $6.9 million as of June 30, 2015 included approximately $1.6 million of funds held by the PEAKS Trust and $3.5 million of funds held by the CUSO. Although the funds held by the PEAKS Trust and the CUSO are included on our Condensed Consolidated Balance Sheets, those funds can only be used to satisfy the obligations of the PEAKS Trust and the CUSO, as applicable. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the PEAKS Trust and CUSO.

Our Condensed Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 and June 30, 2015 included the assets and liabilities of the PEAKS Trust and the CUSO. The assets of the PEAKS Trust can only be used to satisfy the obligations of the PEAKS Trust and the assets of the CUSO can only be used to satisfy the obligations of the CUSO.

The PEAKS Trust's ability to satisfy its obligations is based on payments received from borrowers on the PEAKS Trust Student Loans and collections on the PEAKS Trust Student Loans that have defaulted. To the extent that those payments and collections from borrowers on the PEAKS Trust Student Loans are not sufficient to satisfy the obligations of the PEAKS Trust, including the PEAKS Senior Debt, we are required to make payments under the PEAKS Guarantee. Under the PEAKS Guarantee, we guarantee payment of the principal and interest owed on the PEAKS Senior Debt, the administrative fees and expenses of the PEAKS Trust and a minimum required ratio of assets of the PEAKS Trust to outstanding PEAKS Senior Debt. Our guarantee obligations under the PEAKS Program remain in effect until the PEAKS Senior Debt and the PEAKS Trust's fees and expenses are paid in full. We believe that we will make payments in 2016 of approximately $10.8 million under the PEAKS Guarantee. In the six months ended June 30, 2016, we made payments of $7.2 million under the PEAKS Guarantee.

We also have significant payment obligations under the CUSO RSA. Under the CUSO RSA, we guarantee the repayment of any CUSO Student Loans that are charged off above a certain percentage of the CUSO Student Loans made under the CUSO Program based on the annual dollar volume. Our obligations under the CUSO RSA remain in effect until all CUSO Student Loans are paid in full. We believe that we will make payments in 2016 of approximately $15.7 million, net of $1.9 million of recoveries estimated to be owed to us, under the CUSO RSA. In the six months ended June 30, 2016, we made payments of $10.6 million, net of $1.4 million of recoveries owed to us, under the CUSO RSA. This included a payment of $5.3 million, net of $0.8 million of recoveries, which was the amount that was due under the CUSO RSA from June 8, 2015 through December 31, 2015 and deferred to January 2016 pursuant to the Sixth Amendment to CUSO RSA.

We expect to make significant payments after 2016 under the RSAs. For a detailed description of our obligations under the PEAKS Guarantee and the CUSO RSA, the amounts that we estimate we may have to pay pursuant to those obligations in the future and certain disputes and other matters relating to the RSAs, see Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

We also expect to make principal, interest and fee payments aggregating approximately $74.5 million in 2016 under the Financing Agreement. In the six months ended June 30, 2016, we made payments of principal, interest and fees of $38.1 million under the Financing Agreement. See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for additional information regarding the Financing Agreement.

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

- would constitute a default under the applicable documents;
- could result in cross-defaults under other obligations; and
- could have a material adverse effect on our compliance with the regulations of the ED, state education and professional licensing authorities, the accrediting commissions that accredit our institutions and other agencies that regulate us.

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

In order to generate additional cash from operations to provide the Additional ED Amount, in July 2016 we implemented certain modifications to our marketing and recruitment strategy which we expect will result in a significant decrease in our advertising expenditures for the six months ending December 31, 2016 compared to the same period in the prior year. The modifications also included a significant reduction in the number of recruiting representatives employed at local campus locations in favor of greater utilization of our centralized recruitment center. We believe that the reduction in advertising expenditures will contribute to a further decline in new student enrollments beginning with the September 2016 academic quarter as compared to prior periods. While we expect these modifications to result in an increase to our operating income and cash flow in the short-term, continued enrollment declines would have a negative long-term impact on our revenue, cash flows and financial condition.

We are required to recognize the funded status of our defined benefit postretirement plans on our balance sheet. The line item Other assets on our Condensed Consolidated Balance Sheet as of June 30, 2016 included an asset of $31.0 million for the ESI Pension Plan, a non-contributory defined benefit pension plan commonly referred to as a cash balance plan, compared to an asset of $29.4 million as of December 31, 2015 and an asset of $31.0 million as of June 30, 2015. As of June 30, 2016, the line item Other liabilities on our Condensed Consolidated Balance Sheet included a liability of $0.2 million for the ESI Excess Pension Plan, a nonqualified, unfunded retirement plan, compared to a liability of $0.2 million as of December 31, 2015 and $0.3 million as of June 30, 2015. We do not expect to make any significant contributions to either the ESI Pension Plan or ESI Excess Pension Plan in 2016.

Student Financing Update . During the fourth quarter of 2012, we introduced an institutional scholarship program, called the Opportunity Scholarship, which is intended to help reduce the cost of an ITT Technical Institute education and increase student access to our programs of study. Beginning with the June 2013 academic quarter, the Opportunity Scholarship was being offered to students at all of the ITT Technical Institute campuses. We believe that the Opportunity Scholarship has and will continue to reduce our students' need and use of private education loans.

In addition, the utilization of the Opportunity Scholarship has significantly decreased the need for us to provide internal student financing to our students. The internal student financing that we provide to our students consists of non-interest bearing, unsecured credit to our students and is included in Accounts receivable, net on our Condensed Consolidated Balance Sheets.

As an institutional scholarship, our revenue is reduced by the amount of the Opportunity Scholarship awarded. In addition, no cash payments are received and students will not be obligated to make payments to us of the amounts awarded under the Opportunity Scholarship and, therefore, the accounts receivable from students to us decreased beginning in 2013, as we began awarding the Opportunity Scholarship at all of our ITT Technical Institute campuses. In the three months ended June 30, 2016, the amount of institutional scholarships and awards provided to our students decreased $3.6 million compared to the three months ended June 30, 2015, and, in the six months ended June 30, 2016, the amount of institutional scholarships and awards decreased $12.7 million compared to the six months ended June 30, 2015, primarily due to a decrease in student enrollment.

We plan to continue offering the Opportunity Scholarship and other institutional scholarships and awards to our students. The continued use of institutional scholarships and awards by our students and any additional internal student financing provided to our students could result in a continuation of the adverse factors that are described above, including a material adverse effect on our financial condition and cash flows.

Operations. Net cash used for operating activities was $6.7 million in the three months ended June 30, 2016 compared to $1.5 million in the three months ended June 30, 2015. The $5.2 million increase in net cash used for operating activities was primarily due to lower net cash receipts resulting from lower student enrollments and delays in receipt of Title IV funds following our implementation of additional procedures required by the ED in October 2015 in the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

Net cash generated from operating activities was $5.6 million in the six months ended June 30, 2016 compared to $32.0 million in the six months ended June 30, 2015. The $26.4 million decrease in net cash flows generated from operating activities was primarily due to lower net cash receipts resulting from lower student enrollments and delays in receipt of Title IV funds following our implementation of additional procedures required by the ED in October 2015 in the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

Accounts receivable less allowance for doubtful accounts was $49.2 million as of June 30, 2016 compared to $45.2 million as of June 30, 2015. Days sales outstanding increased 6.2 days to 25.4 days at June 30, 2016 compared to 19.2 days at June 30, 2015. Our accounts receivable balance increased as of June 30, 2016, primarily due to the delay in the receipt of the Title IV funds following our implementation of additional procedures required by the ED in October 2015, which was partially offset by a decrease in total student enrollment. Days sales outstanding increased at June 30, 2016 compared to June 30, 2015, primarily due to the delay in the receipt of Title IV funds.

Investing. Capital expenditures, including expenditures for facility renovation and construction totaled $0.3 million in the three months ended June 30, 2016 compared to $1.6 million in the three months ended June 30, 2015. In the six months ended June 30, 2016, our capital expenditures totaled $1.0 million compared to $2.5 million in the six months ended June 30, 2015. These expenditures consisted primarily of classroom and laboratory equipment (such as computers and electronic equipment), classroom and office furniture and leasehold improvements. In cases where we close campus locations or reduce square footage of our campus locations, we deploy our capital assets to other campus locations wherever possible.

Cash generated from operations is expected to be sufficient to fund our capital expenditure requirements.

Financing. On December 4, 2014, we and certain of our subsidiaries entered into the Financing Agreement. Under the Financing Agreement, we received an aggregate principal amount of $100.0 million under the Term Loans. The outstanding principal balance under the Financing Agreement as of June 30, 2016 was $34.7 million. In the three months ended June 30, 2016, we made principal payments pursuant to the Financing Agreement in the aggregate amount of $15.8 million, which included $15.5 million of scheduled principal payments and $0.3 million of payments from Extraordinary Receipts (as defined in the Financing Agreement), as compared to $2.5 million of scheduled principal payments in the three months ended June 30, 2015. In the six months ended June 30, 2016, we made principal payments pursuant to the Financing Agreement in the aggregate amount of $35.0 million, which included $25.5 million of scheduled principal payments, a $9.0 million mandatory prepayment under the Excess Cash Flow provision of the Financing Agreement and $0.5 million of payments from Extraordinary Receipts, as compared to $5.0 million of scheduled principal payments in the six months ended June 30, 2015. See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for additional information regarding the Financing Agreement.

In January 2010, the PEAKS Trust issued PEAKS Senior Debt in the aggregate principal amount of $300.0 million to investors. The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase student loans from the lender. Beginning on February 28, 2013, we consolidated the PEAKS Trust in our consolidated financial statements. As a result, among other things, the PEAKS Senior Debt is recorded on our consolidated balance sheets following that date. As of June 30, 2016, the outstanding principal balance under the PEAKS Senior Debt was $44.4 million. In the three months ended June 30, 2016, the aggregate amount of principal payments on the PEAKS Senior Debt were $5.8 million as compared to $9.4 million in the three months ended June 30, 2015. In the six months ended June 30, 2016, the aggregate amount of principal payments on the PEAKS Senior Debt were $12.7 million as compared to $25.0 million in the six months ended June 30, 2015. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the PEAKS Consolidation. See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt.

Beginning on September 30, 2014, we consolidated the CUSO in our consolidated financial statements. As a result, among other things, the CUSO Secured Borrowing Obligation is recorded on our consolidated balance sheets following that date. As of June 30, 2016, the outstanding balance of the CUSO Secured Borrowing Obligation was $108.5 million. In the three months ended June 30, 2016, the aggregate amount of payments on the CUSO Secured Borrowing Obligation were $1.9 million as compared to $6.3 million in the three months ended June 30, 2015. In the six months ended June 30, 2016, the aggregate amount of payments on the CUSO Secured Borrowing Obligation were $9.5 million as compared to $10.4 million in the six months ended June 30, 2015. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the CUSO Consolidation and CUSO Secured Borrowing Obligation.

Based on our current projections, we believe that cash generated from operations will be sufficient for us to satisfy our payment obligations for the Additional ED Escrowed Funds, our CUSO RSA and PEAKS Guarantee payments, working capital, loan repayment and capital expenditure requirements over the 12-month period following the date this Quarterly Report on Form 10-Q was filed with the SEC. We also believe that any reduction in cash and cash equivalents that may result from their use to make payments for the Additional ED Escrowed Funds, under the CUSO RSA and PEAKS Guarantee or repay loans will not have a material adverse effect on our planned capital expenditures, ability to meet any applicable regulatory financial responsibility standards, ability to satisfy the financial covenants under the Financing Agreement or ability to conduct normal operations over the 12-month period following the date this Quarterly Report on Form 10-Q was filed with the SEC. Our projections, however, are estimates, which are based on numerous assumptions and, therefore, may not prove to be accurate or reliable and involve a number of risks and uncertainties.

Contractual Obligations and Other Commitments

The following table sets forth the specified contractual obligations and other commitments as of June 30, 2016:

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 years
			(In thousands)		
Operating lease obligations	$133,302	$ 37,380	$ 62,474	$ 29,249	$ 4,199
Term Loans (a)	36,423	36,423	0	0	0
PEAKS Senior Debt (b)	51,406	15,672	19,996	15,738	0
CUSO Secured Borrowings Obligation (c)	190,983	17,706	35,092	34,593	103,592
Total	$412,114	$107,181	$117,562	$ 79,580	$ 107,791

(a) The Term Loans are our borrowings under the Financing Agreement. The amounts shown consist of the required quarterly principal payment amounts and quarterly administrative fees, as well as the required monthly interest payment amounts. Interest payment amounts have been calculated based on their scheduled payment dates using the interest rate charged on our borrowings as of June 30, 2016. See Note 8 – Debt of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the Financing Agreement.

(b) The PEAKS Senior Debt represents the senior debt issued by the PEAKS trust. Beginning on February 28, 2013, the PEAKS Trust was consolidated in our consolidated financial statements, and the PEAKS Senior Debt was included on our Condensed Consolidated Balance Sheet as of June 30, 2016. There is no separate liability recorded on our Condensed Consolidated Balance Sheet as of June 30, 2016 for the PEAKS Guarantee, because this liability was eliminated upon the PEAKS Consolidation. We do, however, have significant payment obligations under the PEAKS Guarantee, as further discussed in Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements. The assets of the PEAKS Trust serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt. There are no scheduled principal repayment requirements for the PEAKS Senior Debt prior to the January 2020 maturity date. The amounts shown in the above table represent our estimate of the total PEAKS Senior Debt interest and principal payments that may be made by the PEAKS Trust in the periods indicated. We estimated the interest due on the PEAKS Senior Debt in each of the periods based on our estimate of the outstanding balance of the PEAKS Senior Debt during those periods. Interest payments have been calculated using the interest rate charged on the PEAKS Senior Debt as of June 30, 2016. We estimated the amount of PEAKS Senior Debt principal payments in each of the periods based on an estimate of the excess cash flows generated by the PEAKS Trust. Cash flows generated by the PEAKS Trust in any month that exceed the amounts needed to pay various administrative fees and expenses and the interest due on the PEAKS Senior Debt for the month must be applied to reduce the outstanding balance on the PEAKS Senior Debt. We also considered whether any payments would be required to be made under the PEAKS Guarantee in order to maintain the required Asset/Liability Ratio. Payments made under the PEAKS Guarantee to maintain the required Asset/Liability Ratio reduce the amount of the outstanding PEAKS Senior Debt and have been included as principal payments in the above table. In order to estimate the PEAKS Senior Debt interest and principal payments shown above, we made certain assumptions regarding the timing and amount of the cash flows generated by the PEAKS Trust. The cash flows of the PEAKS Trust are dependent on the performance of the PEAKS Trust Student Loans and, therefore, are subject to change. See Note 5 – Variable Interest Entities, Note 8 – Debt and Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the PEAKS Senior Debt and PEAKS Guarantee.

(c) The CUSO Secured Borrowing Obligation represents the estimated amount owed by the CUSO to the CUSO Participants related to their participation interests in the CUSO Student Loans, which amount is expected to be paid to the CUSO Participants by the CUSO from payments received by the CUSO related to the CUSO Student Loans, whether from the borrower or from us under the CUSO RSA. Beginning on September 30, 2014, the CUSO was consolidated in our consolidated financial statements, and the CUSO Secured Borrowing Obligation was included on our Condensed Consolidated Balance Sheet as of June 30, 2016. There is no separate liability recorded on our Condensed Consolidated Balance Sheet as of June 30, 2016 for the CUSO RSA, because this liability was eliminated upon the CUSO Consolidation. The amounts shown in the table represent our estimate of the amount of the payments to be made to the CUSO Participants in the periods indicated. In order to estimate these payments, we made certain assumptions regarding the timing and amount of the repayment of the CUSO Student Loans and, therefore, are subject to change. See Note 5 – Variable Interest Entities of the Notes to Condensed Consolidated Financial Statements, for a further discussion of the CUSO Secured Borrowing Obligation.

The table above does not reflect unrecognized tax benefits of $27.8 million and accrued interest related to unrecognized tax benefits of $7.0 million, because we cannot reasonably predict the timing of the resolution of the related tax positions. We may resolve certain federal and state income tax matters presently under examination within the 12 months immediately following the date of this filing. As of June 30, 2016, we estimated that it was reasonably possible that unrecognized tax benefits, excluding interest and penalties, could decrease in an amount ranging from $0 to $11.1 million, and that we could pay approximately $4.2 million, in each case in the 12 months immediately following the date of this filing due to the resolution of those matters.

Off-Balance Sheet Arrangements

As of June 30, 2016, we leased our non-owned facilities under operating lease agreements. A majority of the operating leases contain renewal options that can be exercised after the initial lease term. Renewal options are generally for periods of one to five years. All operating leases will expire over the next eight years and management believes that those leases will be renewed or replaced by other leases in the normal course of business. There are no material restrictions imposed by the lease agreements, and we have not entered into any significant guarantees related to the leases. We are required to make additional payments under the terms of certain operating leases for taxes, insurance and other operating expenses incurred during the operating lease period.

As part of our normal course of operations, one of our insurers issues surety bonds for us that are required by various education authorities that regulate us. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of June 30, 2016, the total face amount of those surety bonds was approximately $21.7 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

In the normal course of our business, we are subject to fluctuations in interest rates that could impact the cost of our financing activities and guarantee obligations. Our primary interest rate risk exposure results from changes in short-term interest rates, the LIBOR and the U.S. prime rate.

Changes in the LIBOR would affect the borrowing costs associated with the Financing Agreement and PEAKS Senior Debt. Changes in the U.S. prime rate would affect the interest cost of the Private Education Loans. We estimate that the market risk can best be measured by a hypothetical 100 basis point increase in the LIBOR or U.S. prime rate. If such a hypothetical increase in the LIBOR or U.S. prime rate were to occur, the effect on our results from operations and cash flows would not have been material for the three or six months ended June 30, 2016.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures ("DCP") that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act is: (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (b) accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosures. In designing and evaluating our DCP, we recognize that any controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving the desired control objectives.

At the time that our 2015 Form 10-K was filed on March 15, 2016, our Chief Executive Officer and Chief Financial Officer concluded that our DCP were not effective at the reasonable assurance level as of December 31, 2015, because of material weaknesses (the "2015 Material Weakness") in our internal control over financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, described below. We have also conducted an evaluation pursuant to Rule 13a-15 of the Exchange Act of the effectiveness of the design and operation of our DCP as of June 30, 2016. This evaluation was conducted under the supervision (and with the participation) of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, because the 2015 Material Weaknesses in our ICFR had not been fully remediated as of June 30, 2016, our DCP were not effective at the reasonable assurance level as of June 30, 2016.

Notwithstanding the 2015 Material Weakness, our management concluded, based on work performed during the quarter ended June 30, 2016 that our condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with GAAP for each of the periods presented in this report.

2015 Material Weakness in Internal Control over Financial Reporting

As discussed in our 2015 Form 10-K, our management concluded that we did not maintain effective ICFR as of December 31, 2015, related to a deficiency in the design and operation of a review control over the financial close and reporting process specific to the PEAKS Senior Debt balances reported in the financial statements, including:

- appropriate reconciliation of the reported amounts and related amortization of the discount recorded against the PEAKS Senior Debt balance; and
- adequacy of the depth, sufficiency and number of resources with the technical expertise available in our accounting and finance group to appropriately identify, research, analyze and conclude upon the accounting treatment.

Our management determined that this 2015 Material Weakness could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. As a result, our management determined that this deficiency constituted a material weakness in our ICFR as of December 31, 2015. See " *Management's Plan for Remediation of the 2015 Material Weakness* ", below.

Management's Plan for Remediation of the 2015 Material Weakness

Our management and Board of Directors are committed to the remediation of the 2015 Material Weakness, as well as the continued improvement of our overall system of ICFR. We are in the process of implementing measures to remediate the underlying causes of the control deficiency that gave rise to the 2015 Material Weakness, which primarily include engaging additional and supplemental internal and external resources.

We believe these measures will remediate the control deficiency. While we have completed some of these measures as of the date of this report, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary to determine whether the 2015 Material Weakness has been remediated. Therefore, the 2015 Material Weaknesses has not been remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiency that gave rise to the 2015 Material Weakness, we may determine that additional measures are required to address the control deficiency.

We are committed to maintaining a strong internal control environment, and believe that these remediation actions will represent improvements in our ICFR when they are fully implemented. Certain remediation steps, however, have not been implemented or have not had sufficient time to be fully integrated in the operations of our ICFR. As a result, the identified 2015 Material Weakness will not be considered remediated until controls have been designed and/or controls are in operation for a sufficient period of time for our management to conclude that the control environment is operating effectively. Additional remediation measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our ICFR and DCP.

As we continue to evaluate and work to remediate the 2015 Material Weakness and enhance our ICFR and DCP, we may determine that we need to modify or otherwise adjust the remediation measures described above. As a result, we cannot assure you that our remediation efforts will be successful or that our ICFR or DCP will be effective as a result of those efforts.

Changes in Internal Control over Financial Reporting

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2016 and concluded that there were no changes in our ICFR that occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our ICFR.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

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

See Note 11 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements, and the discussions under the sub-headings "Litigation" and "Government Investigations," for information regarding certain lawsuits and investigations affecting us, which information is incorporated herein by reference.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties we describe in this report, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016 and our 2015 Form 10-K before deciding to invest in, or retain, shares of our common stock. These are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial or we have not predicted may also harm our business operations or adversely affect us. If any of these risks or uncertainties actually occurs, our business, financial condition, results of operations, cash flows or stock price could be materially adversely affected. Except as set forth below, there have been no other material changes to the risk factors discussed in our 2015 Form 10-K and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016.

If the ED determines that borrowers of federal student loans who attended our institutions have a defense to repayment of their federal student loans based on a state law claim against any of our institutions, our institutions' repayment liability to the ED could have a material adverse effect on our financial condition, results of operations and cash flows. The ED's current regulations provide borrowers of loans under the William D. Ford Federal Direct Loan (the "FDL") program a defense against an attempt to collect their FDL program loans based on any act or omission of the school attended by the student that would give rise to a cause of action under applicable state law. In the event the borrower asserts this defense, and the borrower's defense against repayment is successful, the ED will discharge all or part of the student's obligation to repay the loan, and may proceed to require the student's school to repay the amount of the loan to which the defense applies.

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

In October 2015, the ED announced its intent to appoint a negotiated rulemaking committee to address borrower defense to repayment and related issues. The ED appointed a negotiated rulemaking committee, which met for nine days beginning in January 2016 and ending in March 2016 and discussed a broad scope of topics. The negotiated rulemaking committee did not reach consensus on proposed regulations, resulting in the ED having the authority to draft proposed regulations in its sole discretion. The ED published proposed regulations in the Federal Register on June 16, 2016, and stated that it would accept comments from the public on the proposed regulations through August 1, 2016. In accordance with the rulemaking calendar specified in the HEA, any final regulations would have to be published by the ED by November 1, 2016, in order to become effective July 1, 2017, the earliest date that new regulations could take effect.

The proposed regulations include many of the ideas that were discussed by the negotiated rulemaking committee. The proposed regulations open new avenues for student borrowers to assert a defense to repaying their loans, allow the ED to seek reimbursement for such claims from the affected institutions, and expand the ED's financial responsibility rules to require many more schools to post letters of credit with the ED, ostensibly to assure the ED of the institution's capacity to pay potential future claims to the ED and students. The proposed regulations include, among other things:

- Bases for borrowers to file claims: The proposed regulations set out three grounds for a borrower defense to repayment claim, including a favorable decision for the student in a state or federal court case involving the loan; a breach of contract by the school; or a substantial misrepresentation by the school about the nature of its educational program, the nature of its financial charges, or the employability of its graduates. Claims based on a court judgment or claims to assert a defense against loan payments that are still due can be made any time (with no statute of limitations), while other claims (such as to recoup loan funds already repaid to the ED) must be made within six years.
- Claim resolution process: The proposed regulations call for the ED to set up a fact-finding process to resolve claims. The contemplated structure includes providing the affected school with notice and an opportunity to submit evidence; however, the exact procedures, including the opportunity to contest particular factual assertions or present in-person testimony, are not defined. The ED has also given itself authority to process claims on a group basis, and to take the initiative to create groups and include borrowers who have not filed a claim. Borrowers who file successful claims may have their loans forgiven in whole or in part, with the ED reserving the right to calculate the amount of forgiveness in various ways.
- Recovering funds: For debts relieved for individual borrowers, the proposed regulations give the ED the authority to initiate a proceeding to seek repayment from the school for any loan amounts forgiven. The details concerning how such a proceeding would be conducted are not defined in the proposed regulations. For group relief, there is no separate proceeding, and if the ED determines a group discharge is warranted, it will automatically assign liability to the institution.
- New "early warning" letter of credit triggers: The ED has proposed to amend its existing financial responsibility regulations to describe at least 10 new "early warning" triggers that would allow the ED to require an institution to post a letter of credit ("LOC") with the ED to demonstrate its financial stability and assure the ED of its ability to pay borrower claims if needed. Each trigger would authorize the ED to require an LOC valued at at least 10% of the school's prior year Title IV Programs funding. The triggers are intended to be cumulative, and therefore could require an institution to post a very significant LOC, up to or even exceeding its Title IV funding level. The proposed regulations would also put an institution on provisional certification immediately upon a trigger being met and, if a school does not provide the required LOC within 30 days of ED's request, the ED may offset the school's future Title IV funds for up to nine months until it is able to capture the amount of the LOC. The proposed triggering events include, among others:
    a. Lawsuits and other Actions – If the school is subject to a liability based on a lawsuit or an audit, investigation or similar action by a state or federal oversight agency, including any debt or liability incurred or asserted at any time during the three most recently completed award years, with a claim or liability exceeding the lesser of 10% of the school's current assets or $750,000.
    b. Successful Borrower Defense to Repayment Claims – If the school is required to pay more than 10% of its current assets, or $750,000, whichever is less, to satisfy successful borrower defense claims.

c. Accrediting Agency Actions – If the institution or any of its locations is required to submit a teach-out plan or is placed on probation or issued a show-cause in the three prior award years, regardless of the cause.

d. 90/10 Rule – Failure to meet the 90/10 Rule revenue ratio for a single year.

e. Gainful Employment Rates – If more than 50% of the school's Title IV-recipient students in gainful employment programs are enrolled in gainful employment programs with failing or zone rates (but prior to any loss of eligibility under the multi-year triggers in the New GE Rule, as defined below).

f. Cohort Default Rates – Two consecutive years with cohort default rates ("CDRs") of 30% or higher.

- Required warnings to students of new repayment rate: One section of the proposed regulations applies only to for-profit institutions, requiring such schools to disclose a new form of loan repayment rate in a variety of public materials, to serve as a warning to current and potential students, when the rate is too low. This repayment rate would be calculated based on the payment performance of an institution's students approximately five years after its students graduate or withdraw from the school.
- Forbidding mandatory arbitration clauses and class action waivers: The proposed regulations would prohibit an institution from incorporating a class action waiver provision, or a mandatory arbitration clause, in any agreement with students. If a school's contracts currently contain a pre-dispute arbitration provision or a class waiver, the school will be required to amend the agreement or provide a specific notice to students, using language provided by the ED that explains that those provisions have been changed. This requirement applies to any existing agreements at the time the rule becomes effective, not just for those agreements entered into after July 1, 2017.

If the ED determines that borrowers of FDL program loans who attended our institutions have a defense to repayment of their FDL program loans based on acts or omissions of any of our institutions, the repayment liability to the ED could have a material adverse effect on our financial condition, results of operations and cash flows. Cumulative letters of credit, at 10% of the amount of Title IV Program funds received by the institution during the most recently completed award year, could have a material adverse effect on our financial condition, results of operations and cash flows. Additionally, if the ED determines that our institutions' loan repayment rates are too low, having to issue warnings to current and prospective students describing the low repayment rate could have a material adverse effect on our financial condition, results of operations and cash flows.

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

- required our institutions to submit the ED Letter of Credit in the amount of $79.7 million which subsequently has been replaced by a deposit of funds in the same amount into an escrow account with the ED;
- placed our institutions on heightened cash monitoring by the ED, instead of the ED's standard advance payment method;
- provisionally certified our institutions to participate in Title IV Programs;
- requires our institutions to provide the ED with information about certain oversight and financial events, as described further below;
- requires us to be able to demonstrate to the ED that, for our two most recent fiscal years, we were current on our debt payments and our institutions have met all of their financial obligations, pursuant to the ED's standards; and
- could require our institutions, in future years, to submit their audited financial statements and Compliance Audits to the ED earlier than six months following the end of their fiscal year.

We caused the ED Letter of Credit to be issued on October 31, 2014 and submitted to the ED. On December 16, 2015, we and the ED entered into the ED Agreement, which provides that we would provide funds to the ED for the ED to maintain in an escrow account in lieu of the ED Letter of Credit. On December 17, 2015, we provided to the ED funds in the amount of $79.7 million, which amount is subject to further adjustment by the ED based upon changes in our annual Title IV Programs funding, and based on the ED's determination of the percentage of our annual Title IV Programs funding that must be maintained. The ED Agreement provides that the ED will maintain the funds provided by us in an escrow account to be used for one or more of the following purposes:

- to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;
- to provide for the "teach-out" of students enrolled at the time of closure of our institutions; and

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

which are the same reasons that funds could have been drawn under the ED Letter of Credit. As was the case with the term of the ED Letter of Credit, the ED will hold the ED Escrowed Funds until November 4, 2019, unless we are notified on or before then of the requirement and reasons that the ED Agreement needs to be extended, to the extent provided in the ED's financial responsibility regulations. As a result of our provision of funds under the ED Agreement, the ED Letter of Credit was cancelled on December 22, 2015.

On June 6, 2016, we received the June 2016 ED Letter stating that the ED believes that certain actions of the ACICS (which actions are described in Note 12 – Risks and Uncertainties of the Notes to Condensed Consolidated Financial Statements and in *"The failure of the ITT Technical Institutes to meet the accreditation requirements of the ACICS could result in their loss of eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business"* below), represent an increased risk to the funds under the Title IV Programs that we administer on behalf of students. The June 2016 ED Letter indicates that due to this increased risk, the ED determined that the amount of surety provided by us must be increased from approximately $79.7 million to approximately $123.6 million. The June 2016 ED Letter states that we can provide the Additional ED Amount of approximately $43.9 million to be held as additional ED Escrowed Funds or that we may provide a new letter of credit payable to the ED in the Additional ED Amount. The June 2016 ED Letter also provides that we must continue to comply with the other requirements imposed on us by the ED currently in effect. These other requirements are described further in our 2015 Form 10-K.

On July 6, 2016, the ED informed us that the ED will permit us to provide the Additional ED Amount in three equal installments of approximately $14.6 million on each of July 20, 2016, September 30, 2016 and November 30, 2016. The ED stated that prior to the third installment due on November 30, 2016, the ED will evaluate our Title IV Programs funding level for the 2016 fiscal year to determine if an adjustment in the scheduled payment amount can be made while ensuring that the amount held in surety represents at least 20% of our annual Title IV Programs funding. The ED subsequently indicated that the analysis of our annual Title IV Programs funding volume will not be the only factor that the ED considers in determining whether a change to the third installment is warranted, and it will also take into account the risk environment as it exists at that future time. On July 20, 2016, we made the required first installment payment of approximately $14.6 million to the ED, which is being held as part of the ED Escrowed Funds under the ED Agreement.

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

- make disbursements to students and parents for the amount of Title IV Program funds that those students and parents are eligible to receive; and
- compile borrower-level records with respect to the disbursement of Title IV Program funds to each student and parent.

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

- monetary fines or penalties;
- limiting, terminating or suspending our institutions' eligibility to participate in Title IV Programs; and/or
- transferring our institutions from the HCM method of receiving Title IV Program funds to the ED's reimbursement system, which would significantly delay our institutions' receipt of Title IV Program funds.

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

- the establishment of an additional location;
- an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;
- an addition of any non-degree program or short-term training program; or

- an addition of a degree program by a proprietary institution.

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

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

- any adverse action, including probation or similar action, taken against any of our institutions by its AC, any of its SAs or any federal agency;
- any event that causes us to realize any liability that was noted as a contingent liability in our most recent audited financial statements;
- any violation by us of any loan agreement;
- any failure by us to make a payment in accordance with our debt obligations that results in a creditor filing suit to recover funds under those obligations;
- any withdrawal of our shareholders' equity or net assets by any means, including the declaration of a dividend;
- any extraordinary loss by us, as defined under Accounting Principles Board Opinion No. 30; or
- any filing of a petition by us for relief in bankruptcy court.

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

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

- every two weeks, a thirteen-week projected cash flow statement that includes disclosures concerning significant transactions, important financial transactions, planned school closures, anticipated new program offerings, and other matters; and
- every month, a roster of students, by campus, that includes information on each student's program of study, program start date and anticipated graduation date, enrollment status, and individual contact information.

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

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

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

- requiring students to attend courses prior to the disbursement of Title IV Program funds to them;
- reporting disbursement and refund information as part of the monthly student roster reporting;
- providing certification forms regarding the reconciliation of accounts and eligibility of disbursements; and
- other reporting requirements.

These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED. On January 26 and 27, 2016, the ED conducted a program review, where the ED reviewed our disbursement, reconciliation and reporting processes required by its October 19, 2015 letter. On June 9, 2016, we received from the ED the results of this program review (the "Program Review Report"). On July 8, 2016, we submitted our response to the Program Review Report indicating the procedures that we had implemented, or were in the process of implementing, to address the program review findings. We cannot assure you that the ED will not impose additional requirements on us as a result of their program review.

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

Any significant delay in our institutions' receipt of Title IV Program funds could materially adversely affect our financial condition, results of operations and cash flows, and could cause us to be in default of the Financing Agreement. Depending on the length of the delay, we cannot assure you that we would be able to continue to operate our business in such an event. The ED may also terminate our institutions' eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business. See also "— *Restrictive covenants in the Financing Agreement restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility, and any default by us under the Financing Agreement could have a material adverse effect on our liquidity and ability to comply with our obligations"* in our 2015 Form 10-K.

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

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

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

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

- deliver a warning to current and prospective students in that program at the prescribed time and by a prescribed method which, among other things, states that students may not be able to use Title IV Program funds to attend or continue to attend the program ("Warning"); and
- not enroll, register or enter into a financial commitment with a prospective student in the program, until three business days after (a) a Warning is provided to the prospective student or (b) a subsequent Warning is provided to the prospective student, if more than 30 days have passed since the initial Warning was first provided to the prospective student.

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

The ED released Student Completer Lists, which include the name of each student whose debt and earnings information will be used in the calculation of the first set of D/E Rates, in June 2016. Institutions had until July 28, 2016 to review these lists and submit corrections to the ED. After reviewing all Student Completer List challenges, the ED will gather earnings information from the SSA for each student and calculate draft D/E Rates. Institutions will have limited opportunities to challenge the draft D/E Rates, which we anticipate will be released by the ED in Fall of 2016. The ED has stated that it expects to release the final D/E Rates in January 2017.

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

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

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

At least two lawsuits were filed against the ED in federal courts seeking to have the New GE Rule invalidated. The courts rejected those claims, no court has delayed the effective date of the New GE Rule, and therefore the New GE Rule became effective July 1, 2015.

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

- demonstrate a reasonable relationship between the length of its programs and the entry-level job requirements of the relevant fields of employment;
- comply with all of the applicable Title IV Program regulations prescribed by the ED;
- have capable and sufficient personnel to administer the institution's participation in Title IV Programs;
- define and measure the satisfactory academic progress of its students within parameters specified by the ED;
- provide adequate financial aid counseling to its students who receive Title IV Program funds; and
- timely submit all required reports and financial statements to the ED.

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

- impose monetary fines or penalties on the institution;
- require the institution to repay funds received under Title IV Programs;
- transfer the institution from the advance method of payment of Title IV Program funds to the heightened cash monitoring or reimbursement system of payment; or

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

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

On October 19, 2015, we received a letter from the ED identifying additional procedures that we are required to implement as a result of the identification of certain past deficiencies. These additional procedures include: requiring students to attend courses prior to the disbursement of Title IV Program funds to them; reporting disbursement and refund information as part of the monthly student roster reporting; providing certification forms regarding the reconciliation of accounts and eligibility of disbursements; and other reporting requirements. These additional procedures have resulted in the delay of our receipt of Title IV Program funds. While these additional procedures have affected the timing of our receipt of Title IV Program funds and have imposed an administrative burden on us, we do not expect them to have a significant negative effect on our overall cash flow or operations, but we cannot assure you that there will not be future delays in our institutions' receipt of Title IV Program funds. We have implemented, and are in the process of implementing, measures to comply with the ED's requirements. We have begun submitting the additional information to the ED, and intend to continue submitting information to the ED according to the schedule specified by the ED. On January 26 and 27, 2016, the ED conducted a program review, where the ED reviewed our disbursement, reconciliation and reporting processes required by its October 19, 2015 letter. On June 9, 2016, we received from the ED the results of the program review (the "Program Review Report"). On July 8, 2016, we submitted our response to this Program Review Report indicating the procedures that we had implemented, or were in the process of implementing, to address the program review findings. We cannot assure you that the ED will not impose additional requirements as a result of its program review.

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

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

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

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

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

- the establishment of an additional location;

- an increase in the level of academic offering beyond those listed in the institution's Eligibility and Certification Approval Report with the ED;
- an addition of any non-degree program or short-term training program; or
- an addition of a degree program by a proprietary institution.

In December 2014, the ED informed us that it had disapproved our application to offer four new degree programs at the ITT Technical Institutes due to administrative capability issues reported in recent Compliance Audits and ED program reviews. The ED also told us that we could reapply for these programs when we demonstrated improved performance in those areas. Although we believe that we have made improvements in the areas identified by the ED and we intend to reapply to the ED for approval to offer these programs in the future, we cannot assure you that the ED will approve that re-application or that the ED will permit us to apply for a third time if the re-application is not approved. In addition, in March 2015, the ED approved six and disapproved two new degree programs that we had applied to offer at Daniel Webster College. The basis for disapproval was due to administrative capability issues reported in recent compliance audits and ED program reviews. In February 2016, the ED disapproved our request for reconsideration of the two new degree programs we had previously applied to offer at DWC, due to administrative capability issues reported in recent compliance audits. Our institutions' 2014 Compliance Audits, which were submitted to the ED in June 2015, and our institutions' 2015 Compliance Audits, which were submitted to the ED in June 2016, contained findings in some areas that were similar to or the same as some of the findings in the preceding years' Compliance Audits.

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

We have a significant amount of cash held in escrow with the ED, which has a continuing material adverse effect on our cash flows and liquidity. In December 2015, we deposited $79.7 million to be held in escrow by the ED in replacement of the ED Letter of Credit requirement. In July 2016, we deposited an additional $14.6 million to be held in escrow by the ED, and we are required to deposit an additional $14.6 million in September 2016, and an additional $14.6 million in November 2016. The holding of such funds in escrow has, and will continue to have, a material adverse effect on our liquidity, and significantly reduces the amount of cash that we have available for other purposes, including to satisfy our future payment obligations under the RSAs. The ED Escrowed Funds are not available for use by us, and could be used by the ED if for one or more of the following purposes:

- to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of our institutions, whether our institutions remain open or have closed;
- to provide for the "teach-out" of students enrolled at the time of closure of our institutions; and
- to pay any liabilities owing to the ED arising from acts or omissions by our institutions, on or before November 4, 2019, in violation of requirements set forth in the HEA, including the violation of any agreement entered into by our institutions with the ED regarding the administration of Title IV Programs.

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

The failure of the ITT Technical Institutes to meet the accreditation requirements of the ACICS could result in their loss of eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business. On April 20, 2016, the ACICS informed the ITT Technical Institutes that, based on its review, the ACICS determined that the ITT Technical Institutes have not demonstrated compliance with ACICS' *Accreditation Criteria* . As a result, the ACICS directed the ITT Technical Institutes to show cause at ACICS' August 2016 meeting why the ITT Technical Institutes' accreditation should not be withdrawn by suspension or otherwise conditioned. ACICS stated that the nature of certain adverse information since 2014 regarding certain financial and regulatory matters confronting the ITT Technical Institutes, including being placed on the Heightened Cash Monitoring I method of payment, investigations by certain state Attorneys General, pending litigation with the Consumer Financial Protection Bureau and the Securities and Exchange Commission, and our responses to ACICS requests for information, call into question the institutions' administrative capacity, organizational integrity, financial viability and ability to serve students in a manner that complies with ACICS standards. The ITT Technical Institutes were required to submit, and did submit, to ACICS specified information responding to these concerns by June 15, 2016, and also submitted a supplemental response to ACICS on July 16, 2016.

If ACICS decides at its August 2016 meeting to continue the ITT Technical Institutes' accreditation, ACICS will re-evaluate the accreditation for the ITT Technical Institute institution with 133 additional locations in 2017, since its current four-year grant of accreditation expires on December 31, 2017. At its December 2015 meeting, ACICS awarded the ITT Technical Institute institution with two additional locations a three-year renewal of accreditation through December 31, 2018. We do not know what action ACICS may take to re-evaluate the accreditation of the ITT Technical Institute institution with two additional locations, recognizing that its current three-year grant of accreditation was awarded approximately seven months ago.

If ACICS decides at its August 2016 meeting to defer action or otherwise condition the ITT Technical Institutes' accreditation, the ITT Technical Institutes will work diligently to address any areas of noncompliance and demonstrate appropriate corrective action for review by ACICS within the established, relevant time frame.

If ACICS decides at its August 2016 meeting that the ITT Technical Institutes' accreditation should be withdrawn through suspension of accreditation, the ITT Technical Institutes will appeal that action under ACICS' procedural guarantees. In this case, the ITT Technical Institutes' accreditation by ACICS would continue during the appeal process until a final decision is made. If the ITT Technical Institutes ultimately were to lose their ACICS accreditation, they would lose their eligibility to participate in Title IV Programs, in which case we likely would not be able to continue to operate our business.

Further, we cannot assure you that the ED will not impose further sanctions on us as a result of the ACICS show cause notification, or in the event that the ACICS decides to withdraw or otherwise condition the ITT Technical Institutes' accreditation.

If the ED ceases to approve the ACICS as a recognized accrediting agency, our campuses that are accredited by the ACICS could lose their eligibility to continue participating in Title IV Programs if they could not obtain accreditation by another accrediting agency recognized by the ED, and those campuses' approval status and funding provided by other agencies could also be adversely affected. In order to participate in Title IV Programs, an institution must be accredited by an accrediting agency recognized by the ED. All accrediting agencies that are recognized by the ED are subject to review by the ED on a periodic basis, after which time the ED can decide to renew or not to renew the agency's recognition. The ACICS, which is the institutional accrediting agency for all of our ITT Technical Institutes (but not for Daniel Webster College), is being reviewed by the ED in 2016. On June 16, 2016, the ED released a staff report which recommended that ACICS's petition for renewal of recognition be denied and that ACICS's recognition be withdrawn. This recommendation represents one step in the overall process of reviewing an accrediting agency's recognition. On June 24, 2016, the NACIQI voted that ACICS no longer be recognized as an accrediting agency. Both the ED staff report and NACIQI recommendations were provided to the SDO for the actual decision. The SDO has 90 days from the date of the NACIQI meeting to make a final decision regarding ACICS.

If the ED does not renew its recognition of the ACICS, institutions that are currently accredited by the ACICS would no longer be accredited by a recognized accrediting agency. In such a case, the ED's regulations provide that the ED may continue the eligibility of those institutions to participate in Title IV Programs, putting them on provisional certification status, for a period of up to 18 months, during which time the institutions could seek to obtain accreditation by another accrediting agency that is recognized by the ED. If the ACICS were to lose its recognition by the ED, we cannot assure you that all, or any, of our campuses comprising our institutions could obtain accreditation by another recognized accrediting agency within any specified timeframe. In addition, if our campuses remained on show cause status with the ACICS at the time the ED withdrew its recognition of the ACICS, we cannot predict what effect the show cause status would have on our campuses' ability to become accredited by another recognized accrediting agency. If any of our campuses could not obtain accreditation by another recognized accrediting agency within the time period given to our institutions by the ED, those campuses would lose their eligibility to participate in Title IV Programs and we would likely be forced to close those campuses. Closing multiple campuses would have a material adverse effect on our financial condition, results of operations and cash flows. If all or substantially all of our campuses lost their eligibility to participate in Title IV Programs, we likely would not be able to continue to operate our business.

In addition to the ED, the approval status and in some cases funding provided by other agencies would be adversely affected by the institutions' loss of accreditation by a recognized accrediting agency, effective at the time the accreditation is lost, even during any period that the ED's provisional certification of the institutions continues. For example:

- some state authorizing agencies require institutions to be accredited by a recognized accrediting agency in order to operate or for students at those institutions to receive state funding;
- the Department of Defense requires institutions to be accredited by a recognized accrediting agency in order for military personnel attending those institutions to participate in DOD tuition assistance programs; and
- the Department of Veterans Affairs subjects programs at institutions that are not accredited by a recognized accrediting agency to a more stringent review process.

We cannot assure you what impact the ED's withdrawal of recognition of ACICS as a recognized accrediting agency would have on our campuses' approval status by other agencies or on our funding that those agencies provide to our campuses and their students.

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

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

- the equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;
- the primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and

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

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

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

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

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

We disagree with the ED's determination regarding our institutions' 2013 Composite Score, and we believe that our institutions' 2013 Composite Score is above 1.5. We provided a written response to the ED requesting that the ED reconsider its calculation of our institutions' 2013 Composite Score and offered to meet with the ED to discuss this matter. The ED made a written request for additional information from us, to which we responded on March 25, 2015. On April 15, 2015, the ED reaffirmed its determination that our consolidated financial statements for the fiscal year ended December 31, 2013 yield a Composite Score of 0.9 out of a possible 3.0. On July 10, 2015, we submitted a written appeal to the ED of the ED's April 15, 2015 determination, in which we explained in detail why we believe our institutions' 2013 Composite Score is above 1.5. We cannot assure you that the ED will agree with our position on this matter.

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

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

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

- the PEAKS Consolidation;
- our institutions' failure to submit their 2013 audited consolidated financial statements to the SAs by the applicable due dates; and/or
- other factors.

As a result of these violations, our **:**

- Florida SA:
  - changed the authorization to operate for each of our 11 campuses in Florida from an annual license to a provisional license, through September 21, 2016;
  - told us that it would conduct an on-site visit of each of our Florida campuses to determine the campus' compliance with our Florida SA's regulations;
  - told us that it would require each of our Florida campuses to correct any deficiencies noted during our Florida SA's on-site visit of the campus;
  - required us to submit to our Florida SA any correspondence that we or any of our institutions have with the ED or the AC of our Florida campuses, within 15 days of the submission or receipt of that correspondence;
  - required each of our Florida campuses to submit a train-out plan to our Florida SA on or before September 4, 2014; and
  - required us to report to our Florida SA, at its September 2014 meeting, on the stability of our Florida campuses and any changes that may further affect our stability or operations;
- Pennsylvania SA could:
  - place each of our seven campuses in Pennsylvania on quarterly financial reporting;
  - require each of our Pennsylvania campuses to submit to our Pennsylvania SA a teach-out plan with respect to all of the campus' programs;
  - require each of our Pennsylvania campuses to submit to our Pennsylvania SA a business plan with respect to the campus' operations;
  - raise the required amount of the surety bond that each of our Pennsylvania campuses are required to post for the benefit of our Pennsylvania SA; and/or
  - suspend or revoke each of our Pennsylvania campuses' authorization to operate as an educational institution in Pennsylvania;
- Tennessee SA could:
  - assess monetary fines against each of our five campuses in Tennessee;
  - require each of our Tennessee campuses to submit to our Tennessee SA an audit of the campus' financial stability that is conducted in accordance with generally accepted auditing standards in the United States;
  - revoke or change each of our Tennessee campuses' authorization to operate as an educational institution in Tennessee; and/or
  - suspend or terminate all or any portion of our Tennessee campuses' operations in Tennessee, including, without limitation, new student enrollment, advertising and/or teaching specific programs;
- Texas SA could:
  - assess an administrative penalty;
  - revoke our Texas campuses' certificates of approval;
  - place conditions on our Texas campuses' certificates of approval;
  - suspend the admission of students to our Texas campuses or programs;
  - deny program approvals for our Texas campuses;
  - deny, suspend or revoke the registration of our Texas campuses' representatives;
  - apply for an injunction against our Texas campuses;
  - ask the attorney general to collect a civil penalty for violation of state law or regulations; and/or
  - order a peer review of our Texas campuses; and
- West Virginia SA could:
  - raise the amount of the surety bond that our one campus in West Virginia needs is required to post for the benefit of our West Virginia SA;
  - call the surety bond that our West Virginia campus posted for the benefit of our West Virginia SA;
  - suspend, withdraw or revoke our West Virginia campus' authorization to operate or solicit students in West Virginia;
  - change our West Virginia campus' authorization to operate in West Virginia to a probationary authorization;

- require our West Virginia campus to refund its students' tuition and fees; and/or
- take any other action against our West Virginia campus that our West Virginia SA deems appropriate.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the three months ended June 30, 2016, we did not repurchase any shares of our common stock. Our Board of Directors has authorized us to repurchase shares of our common stock in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Exchange Act (the "Repurchase Program"). The shares that remained available for repurchase under the Repurchase Program were 7,771,025 as of June 30, 2016. Unless earlier terminated by our Board of Directors, the Repurchase Program will expire when we repurchase all shares authorized for repurchase thereunder.

Item 6. Exhibits.

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes the exhibits, and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ITT Educational Services, Inc.

Date: July 29, 2016

By: /s/ Rocco F. Tarasi, III

Rocco F. Tarasi, III
Executive Vice President, Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as Amended to Date (incorporated herein by reference from the same exhibit number to ITT/ESI's 2005 second fiscal quarter report on Form 10-Q)
3.2	Restated By-Laws, as Amended to Date (incorporated herein by reference from the same exhibit number to ITT/ESI's Current Report on Form 8-K filed on July 22, 2011) Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
10.1	ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan
10.2	Form of Award Agreement for Grant of Phantom Units under the ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan
10.3	Consulting Agreement, dated as of June 13, 2016, by and between ITT Educational Services, Inc. and Ryan L. Roney (incorporated herein by reference from Exhibit 10.1 to ITT/ESI's Current Report on Form 8-K filed on June 17, 2016)
31.1	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1	Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350
32.2	Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350
101	The following materials from ITT Educational Services, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income; (iv) Condensed Consolidated Statements of Cash Flows; (v) Condensed Consolidated Statements of Shareholders' Equity; and (vi) Notes to Condensed Consolidated Financial Statements

Exhibit 10.1

ITT EDUCATIONAL SERVICES, INC.
NON-EMPLOYEE DIRECTORS
2016 PHANTOM UNITS PLAN

ARTICLE I

Establishment and Purpose of Plan

1.1 **Establishment** . The Company hereby establishes, effective as of May 2, 2016, the ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan. The Plan is an unfunded compensation plan for Non-Employee Directors, intended to be exempt from the Section 409A Standards.

1.2 **Purpose** . The purpose of the Plan is to advance the interests of the Company and its shareholders by (1) providing Eligible Directors with additional compensation the ultimate value of which depends on the value of the Common Stock, and (2) giving Eligible Directors an additional incentive to remain serving as members of the Board.

ARTICLE II

Definitions and Rules of Construction

2.1 **Definitions** . As used in the Plan, the following words and phrases, when capitalized, have the following meanings:

(a) “Award” means a grant of Phantom Units to a Participant pursuant to the terms of the Plan.

(b) “Award Agreement” means the written agreement, in a form approved by the Board or its designee, evidencing an Award granted under Section 4.1 of the Plan.

(c) “Beneficiary” means, with respect to a Participant, the person or persons designated by the Participant to receive any amount payable under the Plan in the event of the Participant’s death. A Participant’s designation of a Beneficiary will be valid only if it it is made in writing, in a form acceptable to the Board, and received by the Board before the Participant’s death. If a Participant does not designate a Beneficiary, or if the person designated by the Participant as his or her Beneficiary does not survive the Participant, the Participant’s Beneficiary will be the Participant’s spouse, if the Participant is survived by a spouse, or, in all other cases, the Participant’s estate.

(d) “Board” means the Board of Directors of the Company.

(e) “Change in Control” means the occurrence of one or more of the following:

i. The acquisition by any person (within the meaning of Section 13(d) of the Exchange Act) (a “Person”) or “group” (as used in Section 14(d)(2) of the Exchange Act), other than the Company, a Subsidiary, or any employee benefit plan sponsored by the Company or a Subsidiary, of beneficial ownership (within the meaning of Section 13(d) of the Exchange Act), directly or indirectly, of 25 percent or more of the outstanding common stock of the Company; provided, however, that (x) any acquisition pursuant to a Reorganization or Sale that does not constitute a Change in Control for purposes of subparagraph (ii) below will not constitute a Change in Control for purposes of this subparagraph (i) and (y) that an increase in the percentage of the outstanding common stock of the Company beneficially owned by any Person or “group” solely as a result of a reduction in the number of shares of the Company’s common stock then outstanding due to the repurchase by the Company of such common stock will not constitute a Change in Control; except that, for the avoidance of doubt, any subsequent acquisition of shares of Company common stock by any Person or “group” as a result of which immediately following such acquisition such Person or “group” beneficially owns 25 percent or more of the outstanding common stock of the Company will constitute a Change in Control;

ii. The consummation of (A) any consolidation or merger of the Company (a “Reorganization”) or (B) any sale, lease, exchange or other transfer (in one transaction or in a series of related transactions) of all or substantially all of the assets of the Company (a “Sale”), unless, immediately following such Reorganization or Sale, (I) all or substantially all the Persons who were the beneficial owners of the securities eligible to vote for the election of the Board (“Company Voting Securities”) outstanding immediately prior to the consummation of such Reorganization or Sale continue to beneficially own, directly or indirectly, more than 50 percent of the combined voting power of the then outstanding voting securities of the corporation or other entity resulting from such Reorganization or Sale (including a corporation or other entity that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) (the “Continuing Company”) in substantially the same proportions as their ownership, immediately prior to the consummation of such Reorganization or Sale, of the outstanding Company Voting Securities (excluding, for such purposes, any outstanding voting securities of the Continuing Company that such beneficial owners hold immediately following the consummation of the Reorganization or Sale as a result of their ownership prior to such consummation of voting securities of any corporation or other entity involved in or forming part of such Reorganization or Sale other than the Company), (II) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Continuing Company or any entity controlled by the Continuing Company) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding voting securities of the Continuing Company and (III) at least a majority of the members of the board of directors of the Continuing Company were Incumbent Directors (as defined below) at the time of the execution of the definitive agreement providing for such Reorganization or Sale or, in the absence of such an agreement, at the time at which approval of the Board was obtained for such Reorganization or Sale;

iii. During any period of 12 consecutive calendar months, individuals who were directors of the Company on the first day of such period (the "Incumbent Directors") cease for any reason to constitute a majority of the Board; provided, however, that any individual becoming a director subsequent to the first day of such period whose election, or nomination for election, by the Company's stockholders was approved by a vote of at least a majority of the Incumbent Directors shall be deemed to be an Incumbent Director, but excluding, for purposes of this proviso, any such individual whose initial assumption of office occurs as a result of an actual or threatened proxy contest with respect to election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of any Person; or

iv. The liquidation or dissolution of the Company.

However, in the event that the Plan or any Award is determined to be subject to Section 409A of the Code, the term "Change in Control" will include any transaction or event described above only to the extent that it also constitutes a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, within the meaning of Section 409A(a)(2)(A)(v) of the Code.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and interpretive rules and regulations.

(g) “Common Stock” means the Company’s common stock, par value $0.01 per share.

(h) “Company” means ITT Educational Services, Inc.

(i) “Director” means a member of the Board.

(j) “Disability” means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for a period of not less than 12 months.

(k) “Eligible Director” means an individual who, as of May 2, 2016, is a Non-Employee Director.

(l) “Employee” means a person employed by ITT ESI who receives compensation from ITT ESI that is initially reported on a Federal Wage and Tax Statement (Form W-2).

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and interpretive rules and regulations.

(n) “Fair Market Value” means, as of any date prior to a Change in Control, the value of a share of Common Stock determined as follows:

i. Where a public market for the Common Stock exists, the Fair Market Value will be the closing sale price for a share of Common Stock on the market trading day on the date of the determination (or, if no sales were reported on that date, on the last trading date on which sales were reported) on the New York Stock Exchange or the principal securities exchange on which the Common Stock is listed for trading, whichever is applicable, as reported in The Wall Street Journal or such other source as the Board deems reliable; or

ii. In the absence of an established market for the Common Stock of the type described above, the Board will determine the Fair Market Value in good faith using a reasonable valuation methodology, and that determination will be conclusive and binding on all persons.

In the event of a Change in Control, “Fair Market Value” of a share of Common Stock in connection with the Change in Control means the per share consideration received or to be received by the shareholders of the Company with respect to their shares as a result of or connection with the Change in Control transaction, as determined in good faith by the Board, whose determination will be final and binding for purposes of the Plan. Such consideration may include any distributions made by the Company to the shareholders in connection with the Change in Control transaction. The Board will determine the fair market value of any property other than cash received or to be received by the shareholders, as well as any contingent payment or payments to be received after the closing of the transaction.

(o) “ITT ESI” means the Company and any Subsidiary.

(p) “Non-Employee Director” means a Director who is not an Employee,

(q) “Participant” has the meaning provided in Article III of the Plan.

(r) “Phantom Unit” means a notional unit of compensation awarded to a Participant pursuant to Section 4.1 of the Plan, which entitles the Participant to certain payment rights as set forth in the Plan.

(s) “Plan” means this ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan, as amended from time to time.

(t) “Section 409A Standards” means the applicable requirements and standards for non-qualified deferred compensation plans established by Section 409A of the Code and interpretive regulations, notices, and other guidance of general applicability.

(u) “Separate From Service” or Separation From Service” means, with respect to an Eligible Director, that the Eligible Director ceases to be a Director for any reason. However, in the event that the Plan or any Award is determined to be subject to Section 409A of the Code, whether an Eligible Director’s cessation of service as a Director constitutes a Separation From Service will be determined in accordance with the Section 409A Standards, including §1.409A-1(h).

(v) “Specified Employee” has the meaning given in Section 409A(a)(2)(B)(i) of the Code.

(w) “Subsidiary” means any corporation in which the Company owns, directly or indirectly, at least 50 percent of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, limited liability companies, partnerships, and joint ventures) in which the Company owns, directly or indirectly, at least 50 percent of the combined equity.

(x) “Vesting Date” means May 2, 2017.

2.2 **Rules of Construction** . The following rules of construction will govern in interpreting the Plan:

(a) The Plan is intended to be exempt from the Section 409A Standards as a short-term deferral within the meaning of 1.409A-1(b)(4), and its provisions will be interpreted consistent with that intent.

(b) Words used in the masculine gender will be construed to include the feminine gender, where appropriate. Words used in the singular will be construed to include the plural, where appropriate, and vice versa.

(c) The headings and subheadings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of any provision of the Plan.

(d) If any provision of the Plan is held to be illegal or invalid for any reason, that provision will be deemed to be null and void, but the invalidation of that provision will not otherwise impair or affect the Plan.

(e) The provisions of the Plan will be construed and governed by the internal laws of the State of Indiana.

ARTICLE III

Participation

3.1 **Commencement of Participation** . Each Eligible Director will become a Participant when he or she is granted an Award pursuant to Section 4.1 of the Plan.

3.2 **Duration of Participation** . A Participant will remain a Participant until the Participant (or his or her Beneficiary) has received all payments to which the Participant is entitled under the terms of the Plan.

ARTICLE IV

Phantom Unit Awards

4.1 **Grant of Awards** . Effective May 2, 2016, each Eligible Director will be granted an Award of Phantom Units. The number of Phantom Units granted to each Eligible Director will be determined by dividing $100,000 by the Fair Market Value of a share of Common Stock on May 2, 2016, rounded up to the next whole number of Phantom Units. Each grant of Phantom Units will be evidenced by an Award Agreement that specifies the number of Phantom Units, the Vesting Date, the payment terms, and such other terms as the Board determines, all in accordance with the terms of the Plan.

4.2 **Vesting of Awards** . A Participant's Award of Phantom Units will become fully vested and non-forfeitable upon the earliest to occur of the following:

(a) the Vesting Date;

(b) a Change in Control; or

(c) the Participant's Separation From Service by reason of the Participant's death or Disability.

4.3 **Payment of Vested Awards** . Upon the vesting of a Participant's Award of Phantom Units, payment will be made as follows:

(a) If a Participant's Award of Phantom Units becomes vested upon the Vesting Date pursuant to Section 4.2(a) of the Plan, then the value of the Participant's Phantom Units will be paid to the Participant in a lump sum cash payment within sixty (60) days following the Vesting Date. For this purpose, the value of the Participant's Phantom Units will be determined by multiplying the number of the Participant's Phantom Units by the Fair Market Value of a share of Common Stock on the Vesting Date.

(b) If a Participant's Award of Phantom Units becomes vested upon a Change in Control pursuant to Section 4.2(b) of the Plan, then the value of the Participant's Phantom Units will be paid to the Participant in a lump sum cash payment within ten (10) business days following the Change in Control. For this purpose, the value of the Participant's Phantom Units will be determined by multiplying the number of the Participant's Phantom Units by the Fair Market Value of a share of Common Stock in connection with the Change in Control.

(c) If a Participant's Award of Phantom Units becomes vested upon the Participant's Separation From Service upon the Participant's Separation From Service due to Disability pursuant to Section 4.2(c) of the Plan, the value of the Participant's Phantom Units will be paid to the Participant in a lump sum cash payment within sixty (60) days following the Participant's Separation From Service. For this purpose, the value of the Participant's Phantom Units will be determined by multiplying the number of the Participant's Phantom Units by the Fair Market Value of a share of Common Stock on the date of the Participant's Separation From Service.

(d) If a Participant's Award of Phantom Units becomes vested upon the Participant's Separation From Service due to the Participant's death pursuant to Section 4.2(c) of the Plan, the value of the Participant's Phantom Units will be paid to the Participant's Beneficiary in a lump sum cash payment within sixty (60) days following the Participant's date of death. For this purpose, the value of the Participant's Phantom will be determined by multiplying the number of the Participant's Phantom Units by the Fair Market Value of a share of Common Stock as of the Participant's date of death.

4.4 **Forfeiture of Awards .** If a Participant Separates From Service for any reason other than the Participant's death or Disability before the Participant's Award of Phantom Units has become fully vested under Section 4.2 of the Plan, the Participant's entire Award of Phantom Units will be immediately forfeited, and the Participant will not be entitled to any payment on account of the Award.

4.5 **Delay For Specified Employees .** Because the Plan is only for Directors who are not Employees, it is not expected that any Participants will be Specified Employees. However, in the event that the Plan or a Participant's Award is determined to be subject to Section 409A of the Code, and the Participant is a Specified Employee at the time of his or her Separation From Service, then notwithstanding any other provision of the Plan, unless the Participant's Separation From Service is by reason of the Participant's death, then any amount that becomes payable under the Plan due to the Participant's Separation From Service will be paid on the first day that is six months after the date on which the Participant's Separation From Service occurs.

4.5 **Adjustments For Changes in Common Stock .** In the event of any change in the outstanding Common Stock as a result of any split, recapitalization, reclassification, consolidation, or similar change in the Company's capitalization that occurs between the date on which an Award is granted to a Participant pursuant to Section 4.1 of the Plan and the date on which that Award becomes vested and subject to payment under the Plan, the Board will adjust the number of Phantom Units credited to the Participant under the Award so that the change in the Company's capitalization does not affect the value of the aggregate Phantom Units awarded to the Participant.

ARTICLE V

Plan Administration

5.1 **The Board** . The Plan will be administered by the Board.

5.2 **Authority of the Board** . The Board will have sole discretion to make all determinations that may be necessary or advisable for the administration of the Plan. All determinations and decisions made by the Board pursuant to the provisions of the Plan, and all related orders or resolutions of the Board relating to the Plan, will be final, conclusive and binding upon all interested persons, including the Company, ITT ESI, Participants, and their estates and Beneficiaries.

5.3 **Claims Procedures** . Any person making a claim for benefits under the Plan must submit the claim in writing to the Board or its designee. If the Board or its designee denies the claim in whole or in part, it will issue to the claimant a written notice explaining the reasons for the denial (with specific reference to the Plan provisions on which the denial is based) and identifying any additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within sixty (60) days of receiving a written notice of denial, submit a written request for reconsideration to the Board or its designee, together with a written explanation of the basis for the request. The Board or its designee will consider any such request and will provide the claimant with a written decision, which will include a written explanation of the reason(s) for the decision (with reference to the specific Plan provisions on which the decision is based). All interpretations, determinations and decisions of the Board with respect to any claims will be final and conclusive in the absence of clear and convincing evidence that the interpretation, determination, or decision was made arbitrarily or capriciously.

5.4 **Right to Suspend Benefits and Correct Errors .** To the extent consistent with applicable law, the Board or its designee may delay any payment until satisfied as to the correctness of the payment or the person to receive the payment or to allow filing in any court of competent jurisdiction for a legal determination of the benefits to be paid and the person to receive them. The Board specifically reserves the right to correct errors of every sort, and each Participant hereby agrees, on his or her own behalf and on behalf of any Beneficiary, to any method of error correction specified by the Board or its designee. The Board is authorized to recover any payment made in error.

5.5 **Incapacity .** If the Board or its designee determines that any person entitled to a payment under the Plan is a minor, an incompetent person, or other person incapable of providing a valid receipt, then any payment due to that person may be paid for the benefit of that person to the person's spouse, parent, or other person providing or reasonably appearing to provide for the care of that person, unless a duly qualified guardian or other legal representative has been appointed, in which case payment will be made to the guardian or legal representative.

ARTICLE VI

Miscellaneous

6.1 **Nontransferability** . No payee may assign, encumber, or otherwise anticipate the right to receive any payment due him or her under the Plan. The value of Phantom Units awarded to a Participant under the Plan will not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, attachment, garnishment, levy, execution, or other legal or equitable process or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, or otherwise encumber any amount payable under the Plan, whether payable presently or in the future, will be void.

6.2 **Liability of the Company .** The Company will not have any liability with respect to the Plan except to make payment for the value of nonforfeitable Phantom Units in accordance with the terms of the Plan. The Company has not made any representations to any Participant with respect to the tax implications of any payments or transactions contemplated by the Plan. Each Participant must obtain his or her own counsel to advise the Participant with respect to the tax effect of the Plan.

6.3 **Future Director Terms**. Nothing in the Plan, nor any action taken under the Plan, will be construed as giving any Participant a right to continue as a Director or require the Company to nominate or cause the nomination of a Participant for a future term as a Director.

6.4 **Participant's Rights Unsecured**. The right of any Participant or Beneficiary to receive payment for the value of Phantom Units under the provisions of the Plan will be an unsecured claim against the general assets of the Company. The Company is not obligated to acquire or set aside particular assets for the discharge of its obligations, nor will any Participant or Beneficiary have any property rights in any particular assets held by the Company, whether or not held for the purpose of funding the Company's obligations under the Plan.

6.5 **Withholding and Taxes.** The Company will have the right to deduct from all amounts payable under the Plan any federal, state or local taxes required by applicable law to be withheld from any payment made under the Plan, as determined by the Board. A Participant or his or her Beneficiary is responsible for any and all taxes payable under the Code (or similar state or local tax laws) as a result of the Participant's participation in the Plan.

6.6 **No Rights as Shareholder.** A Participant will have no rights as a shareholder with respect to Phantom Units awarded to the Participant, and no adjustment will be made to the amount of a Participant's Phantom Units for dividends (ordinary or extraordinary), whether in cash, securities, or other property), distributions, or other rights relating to Common Stock.

6.7 **Amendment.** The Board, and only the Board, may alter or amend the Plan at any time; provided, however, that no amendment to the Plan may, without the consent of the affected Participant, reduce an Award previously granted under the terms of the Plan. Notwithstanding the foregoing, the Board expressly reserves the right to amend the Plan and any Award to the extent necessary or desirable to ensure that the Plan and all Awards remain exempt from (or, if applicable, to comply with) the Section 409A Standards.

6.8 **Termination**. The Plan will terminate upon the earlier of the following:

(a) the effective date of a resolution adopted by the Board to terminate the Plan; or

(b) the date as of which all Awards granted under Section 4.1 of the Plan have either been paid as provided in Section 4.3 of the Plan or forfeited as provided in Section 4.4 of the Plan.

Adopted by the Board of Directors of ITT Educational Services, Inc. on April 25, 2016

Exhibit 10.2

AWARD AGREEMENT
GRANT OF PHANTOM UNITS

ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan

Name of Participant: ___________________________

Date of Grant: May 2, 2016

Number of Phantom Units Granted: [Calculate and insert number of Phantom Units being granted, which will be calculated by dividing $100,000 by the closing price on May 2, 2016.]

This Award Agreement (this "Agreement") between ITT Educational Services, Inc. (the "Company"), and the Participant named above (the "Participant") evidences the grant to the Participant of Phantom Units under the ITT Educational Services, Inc. Non-Employee Directors 2016 Phantom Units Plan (the "Plan"). Capitalized terms used but not defined in this Agreement shall have the meanings given to those terms in the Plan.

The Company and the Participant agree as follows:

1. Grant of Phantom Units . The Company hereby grants to the Participant, as of the date stated above (the "Date of Grant"), that number of Phantom Units stated above (the "Phantom Units"), subject to the terms and conditions of this Agreement and the Plan.

2. Vesting . The Phantom Units granted pursuant to this Agreement shall vest on May 2, 2017, or, if sooner, upon the earlier to occur of the following: (1) a Change in Control; or (2) the Participant's Separation From Service by reason of the Participant's death or Disability.

3. Payment to Participant . The Company shall make payment to the Participant with respect to his or her Phantom Units in accordance with, and subject to, the terms and conditions set forth in the Plan.

4. Plan Controlling . This Agreement is subject in all respects to the terms and conditions of the Plan, which is incorporated herein by reference. All determinations and interpretations of the Plan and this Agreement by the Board shall be binding and conclusive upon the Participant and his or her legal representatives. A copy of the Plan has been delivered to the Participant, receipt of which is hereby acknowledged. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms, conditions and provisions of the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement as of the ___day of May, 2016.

ITT EDUCATIONAL SERVICES, INC.

By: ______________________________

Printed: ______________________________

Title: ______________________________

____

Participant

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a–14(a)/15d–14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

I, Kevin M. Modany, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITT Educational Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2016

/s/ Kevin M. Modany
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a–14(a)/15d–14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

I, Rocco F. Tarasi, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITT Educational Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2016

/s/ Rocco F. Tarasi, III
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ITT Educational Services, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Kevin M. Modany, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin M. Modany
Chief Executive Officer
July 29, 2016

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ITT Educational Services, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Rocco F. Tarasi, III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rocco F. Tarasi, III
Chief Financial Officer
July 29, 2016