CAREER EDUCATION CORP
Form 10-Q
May 03, 2017

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 MARCH 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 0-23245

CAREER EDUCATION CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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 website, 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of registrant's common stock, par value $0.01, outstanding as of April 28, 2017: 69,028,618

CAREER EDUCATION CORPORATION

FORM 10-Q

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

ASSETS	March 31, 2017 (unaudited)	December 31, 2016
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 13,268	$ 49,507
Restricted cash	1,375	1,375
Restricted short-term investments	8,597	8,597
Short-term investments	143,323	147,681
Total cash and cash equivalents, restricted cash and short-term investments	166,563	207,160
Student receivables, net of allowance for doubtful accounts of $22,162 and $21,376 as of March 31, 2017 and December 31, 2016, respectively	23,473	22,825
Receivables, other, net	1,198	929
Prepaid expenses	11,989	14,446
Inventories	1,445	1,868
Other current assets	1,028	817
Assets of discontinued operations	97	148
Total current assets	205,793	248,193
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of $376,892 and $381,415 as of March 31, 2017 and December 31, 2016, respectively	37,465	40,512
Goodwill	87,356	87,356
Intangible assets, net of amortization of $1,000 and $800 as of March 31, 2017 and December 31, 2016, respectively	8,300	8,500
Student receivables, net of allowance for doubtful accounts of $1,991 and $1,766 as of March 31, 2017 and December 31, 2016, respectively	2,873	3,055
Deferred income tax assets, net	154,480	158,272
Other assets	7,414	7,608
Assets of discontinued operations	6,048	6,105
TOTAL ASSETS	$ 509,729	$ 559,601
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 13,270	$ 10,099
Accrued expenses:		
Payroll and related benefits	28,628	41,203
Advertising and marketing costs	13,949	10,253
Income taxes	2,313	1,830
Other	36,665	69,244
Deferred tuition revenue	20,932	28,364

Liabilities of discontinued operations	7,398	8,219
Total current liabilities	123,155	169,212
NON-CURRENT LIABILITIES:		
Deferred rent obligations	27,067	30,713
Other liabilities	27,535	31,751
Liabilities of discontinued operations	4,907	6,422
Total non-current liabilities	59,509	68,886
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.01 par value; 300,000,000 shares authorized; 83,906,099 and 83,538,033 shares issued, 68,770,300 and 68,519,005 shares outstanding as of March 31, 2017 and December 31, 2016, respectively	839	835
Additional paid-in capital	614,571	613,325
Accumulated other comprehensive loss	(194)	(258)
Accumulated deficit	(71,053)	(76,230)
Cost of 15,135,799 and 15,019,028 shares in treasury as of March 31, 2017 and December 31, 2016, respectively	(217,098)	(216,169)
Total stockholders' equity	327,065	321,503
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 509,729	$ 559,601

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

	For the Quarter Ended March 31, 2017	2016
REVENUE:		
Tuition and fees	$161,377	$197,785
Other	732	1,101
Total revenue	162,109	198,886
OPERATING EXPENSES:		
Educational services and facilities	40,173	61,538
General and administrative	108,245	123,563
Depreciation and amortization	3,910	6,569
Asset impairment	-	237
Total operating expenses	152,328	191,907
Operating income	9,781	6,979
OTHER INCOME:		
Interest income	390	265
Interest expense	(113)	(236)
Miscellaneous income	40	217
Total other income	317	246
PRETAX INCOME	10,098	7,225
Provision for income taxes	4,501	4,135
INCOME FROM CONTINUING OPERATIONS	5,597	3,090
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(420)	(79)
NET INCOME	5,177	3,011
OTHER COMPREHENSIVE INCOME, net of tax:		
Foreign currency translation adjustments	41	193
Unrealized gains on investments	23	323
Total other comprehensive income	64	516
COMPREHENSIVE INCOME	$5,241	$3,527
NET INCOME (LOSS) PER SHARE - BASIC:		
Income from continuing operations	$0.08	$0.04
Loss from discontinued operations	-	-
Net income per share	$0.08	$0.04
NET INCOME (LOSS) PER SHARE - DILUTED:		

Income from continuing operations	$0.08	$0.04
Loss from discontinued operations	(0.01)	-
Net income per share	$0.07	$0.04
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	68,578	68,155
Diluted	70,319	68,798

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Quarter Ended March 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,177	$3,011
Adjustments to reconcile net income to net cash used in operating activities:		
Asset impairment	-	237
Depreciation and amortization expense	3,910	6,569
Bad debt expense	8,224	9,552
Compensation expense related to share-based awards	1,111	544
Deferred income taxes	3,792	-
Changes in operating assets and liabilities	(61,267)	(30,105)
Net cash used in operating activities	(39,053)	(10,192)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(39,992)	(36,004)
Sales of available-for-sale investments	44,316	28,189
Purchases of property and equipment	(735)	(876)
Payments of cash upon sale of businesses	-	(62)
Net cash provided by (used in) investing activities	3,589	(8,753)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	138	147
Payment on borrowings	-	(38,000)
Payments of employee tax associated with stock compensation	(928)	(418)
Net cash used in financing activities	(790)	(38,271)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	15	(253)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,239)	(57,469)
CASH AND CASH EQUIVALENTS, beginning of the period	50,882	116,740
CASH AND CASH EQUIVALENTS, end of the period	$14,643	$59,271

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Career Education's academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and blended learning programs. Our two universities – American InterContinental University ("AIU") and Colorado Technical University ("CTU") – provide degree programs through the master's or doctoral level as well as associate and bachelor's levels. Both universities predominantly serve students online with career-focused degree programs that are designed to meet the educational demands of today's busy adults. AIU and CTU continue to show innovation in higher education, advancing new personalized learning technologies like their intellipath™ adaptive learning platform. Career Education is committed to providing quality education that closes the gap between learners who seek to advance their careers and employers needing a qualified workforce.

Additionally, CEC is in the process of teaching out campuses within our Transitional Group and Culinary Arts segments. Students enrolled at these campuses have been afforded the reasonable opportunity to complete their program of study prior to the final teach-out date.

A listing of individual campus locations and web links to Career Education's colleges, institutions and universities can be found at www.careered.com.

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "the Company" and "CEC" refer to Career Education Corporation and our wholly-owned subsidiaries. The terms "college," "institution" and "university" refer to an individual, branded, for-profit educational institution, owned by us and includes its campus locations. The term "campus" refers to an individual main or branch campus operated by one of our colleges, institutions or universities.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the quarter ended March 31, 2017 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2017.

The unaudited condensed consolidated financial statements presented herein include the accounts of Career Education Corporation and our wholly-owned subsidiaries (collectively "CEC"). All intercompany transactions and balances have been eliminated.

Our reporting segments are determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280 – Segment Reporting and are based upon how the Company analyzes performance and makes decisions. We organize our business across four reporting segments: CTU, AIU (comprises University Group); Culinary Arts and Transitional Group (comprises Career Schools Group). Campuses included in our Transitional Group and Culinary Arts segments are currently being taught out and no longer enroll new students. These campuses employ a gradual teach-out process, enabling them to continue to operate while current students have a reasonable opportunity to complete their course of study.

During the first quarter of 2017, the Company completed the teach-out of two Transitional Group campuses: Sanford-Brown Mendota Heights and Sanford-Brown Houston, which continue to be reported within the Transitional Group as of March 31, 2017 in accordance with ASC Topic 360 – Property, Plant and Equipment, which limits discontinued operations reporting.

Effective January 2017, the Company now accounts for cash flows related to cash payments for employee taxes made by the Company on the employees' behalf for withheld shares related to stock settlements as a financing activity within the statement of cash flows. This change was a result of updated guidance issued by the Financial Accounting Standards Board ("FASB") under Accounting Standards Update ("ASU") No 2016-09, Compensation – Stock Compensation (Topic 718). Prior period amounts were recast to cash flows from financing activities from cash flows from operating activities to be comparable to current year reporting. See Note 3 "Recent Accounting Pronouncements" for further discussion.

Effective January 2017, the Company now accounts for cash flows related to changes in restricted cash and restricted cash equivalents within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This change was a result of updated guidance issued by the FASB under ASU No 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Prior period amounts are now included in cash and cash equivalents, beginning and end of the period, which were previously presented within cash flows from financing activities for changes in balances, to be comparable to current year reporting. See Note 3 "Recent Accounting Pronouncements" for further discussion.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting guidance adopted in 2017

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this ASU modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning fair value of a reporting unit to all its assets and liabilities as if that reporting unit had been acquired in a business combination, eliminating Step 2 from the goodwill impairment tests. For all public entities, ASU 2017-04 is effective for annual periods and interim periods beginning after December 15, 2019; early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. We have evaluated and adopted this guidance beginning 2017. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In January 2017, the FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. The amendments in this ASU announced disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant when such standards are adopted in a future period. The announcement applies to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), ASU No. 2016-02 Leases (Topic 842); and ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). The amendment provides SEC staff views that a registrant should evaluate ASUs that have not yet been adopted to determine the appropriate financial statement disclosures and the potential material effects of those ASUs on the financial statements when adopted. The changes and corrections within this guidance did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting. This ASU simplified several aspects of accounting for share-based payment award transactions including the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, classification of employee taxes paid on the statement of cash flows when the employer withholds shares, forfeiture policy election and payroll minimum statutory withholding. The changes in the new standard eliminate the accounting for excess tax benefits to be recognized in additional paid-in capital and tax deficiencies recognized either in the income tax provision or in additional paid-in capital. We have evaluated each component of this guidance listed below and adopted the new standard with the year beginning January 1, 2017.

- Accounting for Income Taxes: The primary impact of adoption is the recognition of excess tax benefits and tax deficiencies recorded in the statement of income (loss) and comprehensive income (loss) when stock awards vest or are settled, rather than paid-in capital for all periods beginning in 2017. The provision for income taxes for the quarter ended March 31, 2017 includes a $0.3 million favorable adjustment associated with the adoption of ASU 2016-09, which decreased our quarterly effective tax rate by 3.4%. The Company evaluated the unrecognized excess tax benefits as of December 31, 2016 on a cumulative retrospective basis and determined it did not have any impact to retained earnings and deferred tax assets as of the January 1, 2017 adoption date.

- Classification of Cash Flow: The adoption of this ASU has no material impact on our presentation of the statement of cash flows for the quarter ended March 31, 2017. We have elected to apply the presentation requirements for cash flows related to cash payments for employee taxes made by the Company on the employees' behalf for withheld shares to be reported as financing activities for all periods presented. The presentation requirements for cash flows related to excess tax benefits have no impact to any of the periods presented on our consolidated cash flow statements.

- Accounting for Forfeitures: The Company currently accounts for estimated forfeitures in the amount of compensation cost recognized in each period, and has continued to do so under the new guidance, therefore, the adoption has had no impact related to forfeitures.

- Minimum Statutory Tax Withholding: The new guidance contains an option which allows employees to withhold tax amounts up to the employees' maximum individual tax rate, which provides the Company an ability to repurchase more of its employees' shares without triggering liability accounting. This change has not impacted the presentation of our financial statements or disclosures.

- Earnings per Share ("EPS"): The primary impact of adoption is the elimination of the calculation of assumed proceeds from windfalls and shortfalls under the treasury stock method, which results in fewer hypothetical repurchases of shares and higher incremental shares being issued, having a dilutive effect on EPS. The impact of this change on our EPS is immaterial for the first quarter of 2017 and we expect it to continue to be immaterial for future periods.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For all public entities, ASU 2016-18 is effective for annual periods and interim periods beginning after December 15, 2017; early adoption is permitted for all organizations for annual periods and interim periods. We have evaluated and adopted this guidance beginning 2017 for all periods presented. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investments, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method was in effect during all previous periods. The amendment requires an equity method investor to add the cost of acquisition and requires available-for-sale equity securities that qualify for the equity method of accounting to recognize earnings as unrealized holding gains or losses in accumulated other comprehensive income. For all entities, ASU 2016-07 is effective for annual periods and interim periods beginning after December 15, 2016. We have evaluated and adopted this guidance beginning 2017. The adoption did not materially impact the presentation of our financial condition, results of operations and disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in this ASU require an entity to measure inventory at the lower of cost and net realizable value, further clarifying consideration for net realizable value as estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU more closely aligns the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (“IFRS”). For public business entities, ASU 2015-11 is effective for annual periods and interim periods beginning after December 15, 2016. The amendment in this ASU is prospectively applied. We have evaluated and adopted this guidance beginning 2017. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

Recent accounting guidance not yet adopted

In February 2017, the FASB issued ASU No. 2017-05, Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this ASU clarify and provide guidance for partial sales of nonfinancial assets and recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. For all public entities, ASU 2017-05 is effective for annual reporting periods and interim periods beginning after December 15, 2017; early adoption is permitted for all organizations for annual periods and interim periods. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in this ASU improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by reducing complexity in accounting standards. The amendments eliminate the exception prohibiting the recognition of current and deferred income taxes for an intra-entity transfer of an asset other than inventory until the asset has been sold to an outside party. For all public entities, ASU 2016-16 is effective for annual periods and interim periods beginning after December 15, 2017; early adoption is permitted for all organizations for annual periods and interim periods. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. The eight topics include debt prepayment or extinguishments costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. For all public business entities, ASU 2016-15 is effective for annual periods and interim periods beginning after December 15, 2017; early adoption is permitted for all organizations for annual periods and interim periods. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. For all public business entities, ASU 2016-13 is effective for annual periods and interim periods beginning after December 15, 2019; early adoption is permitted for all organizations for annual periods and interim periods beginning after December 15, 2018. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The objective of Topic 842 is to establish transparency and comparability that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The core principle of Topic 842 is that lessees should recognize the assets and liabilities that arise from leases. All leases create an asset and liability for the lessee in accordance with FASB Concept Statements No. 6 Elements of Financial Statements, and, therefore, recognition of those lease assets and liabilities represents an improvement over previous GAAP. The accounting applied for lessors largely remained unchanged. The amendment in this ASU requires recognition of a lease liability and a right to use asset at the lease inception date. For all public business entities, ASU 2016-02 is effective for annual periods and interim periods beginning after December 15, 2018; early adoption is permitted. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact primarily relates to our accounting for real estate leases and real estate subleases. The Company expects to have a material amount now reported as a right of use asset and lease liability related to these leases as well as expects to separate lease components from the non-lease components for recognition. We will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach starting fiscal year 2017. We are currently evaluating this guidance and believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is principles based guidance that can be applied to all contracts with customers, enhancing comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance details the steps entities should apply to achieve the core principle. Subsequently, FASB issued four additional Updates to the guidance as follows: In August 2015, the FASB issued ASU 2015-14 approving a one-year deferral of the effective date for its new revenue standard for public and nonpublic entities reporting under GAAP. In March 2016, the FASB issued ASU 2016-08, providing clarity to improve operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, to add further guidance on identifying performance obligations and the licensing implementation while retaining the related core principles for those areas. In May 2016, the FASB issued ASU 2016-12, amendments to provide clarity on the objective of the collectability criterion, permit an entity to exclude amounts collected from customers for all sales taxes from the transaction price, specify a measurement date for non-cash consideration, provide a practical expedient permitting an entity to reflect the aggregate effect of all modifications, clarify a completed contract during transition and clarify disclosure requirements for retrospectively applied guidance in Topic 606. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, providing further clarification and guidance on various topics brought to the Board’s attention by Codifications online feedback and stakeholders’ technical inquiries. The guidance permits two methods of adoption: a full retrospective approach which requires restatements of all prior periods presented or a modified retrospective approach which does not require restatement of all prior periods presented. The standard will be effective for public business entities for annual reporting periods beginning after December 15, 2017 and interim periods therein.

The new standard will be effective for us beginning January 1, 2018. We are continuing to evaluate the impact that the adoption of ASU 2014-09 will have on the presentation of our financial condition, results of operations and disclosures. While we are continuing to assess all potential impacts of the standard, we are currently anticipating adopting the standard using the modified retrospective approach. Additionally, we are currently assessing the impacts related to the accounting for contract assets separate from accounts receivable and are evaluating the point at which a student’s contract asset becomes a receivable. We expect to utilize a portfolio approach when analyzing our student contracts and are evaluating how we will determine the portfolio(s) and apply this approach. We reasonably expect that the impact of applying the portfolio approach to not differ materially from considering each contract individually. Our student contracts all have similar characteristics and performance obligations. We do not expect to have a material impact to revenue recognition related to the adoption of ASU 2014-09 but we are still finalizing our assessment.

4. FINANCIAL INSTRUMENTS

Investments consist of the following as of March 31, 2017 and December 31, 2016 (dollars in thousands):

	March 31, 2017			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$1,000	$-	$-	$1,000
Non-governmental debt securities	107,023	18	(80)	106,961
Treasury and federal agencies	35,431	7	(76)	35,362
Total short-term investments	143,454	25	(156)	143,323
Restricted short-term investments (available for sale):				
Non-governmental debt securities	8,597	-	-	8,597
Total investments (available for sale)	$152,051	$25	$(156)	$151,920

	December 31, 2016			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$4,050	$-	$-	$4,050
Non-governmental debt securities	107,305	22	(113)	107,214
Treasury and federal agencies	36,480	10	(73)	36,417
Total short-term investments	147,835	32	(186)	147,681
Restricted short-term investments (available for sale):				
Non-governmental debt securities	8,597	-	-	8,597
Total investments (available for sale)	$156,432	$32	$(186)	$156,278

In the table above, unrealized holding gains (losses) as of March 31, 2017 relate to short-term investments that have been in a continuous unrealized gain (loss) position for less than one year.

Our unrestricted non-governmental debt securities primarily consist of corporate bonds and commercial paper. Our treasury and federal agencies primarily consist of U.S. Treasury bills and federal home loan debt securities. We do not intend to sell our investments in these securities and it is not likely that we will be required to sell these investments before recovery of the amortized cost basis. Our restricted short-term investments are comprised entirely of certificates of deposit, which secure our letters of credit.

Fair Value Measurements

FASB ASC Topic 820 – Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2017, we held investments that are required to be measured at fair value on a recurring basis. These investments (available-for-sale) consist of municipal bonds, non-governmental debt securities, and treasury and federal agencies securities. Available for sale securities included in Level 1 are valued at quoted prices in active markets for identical assets and liabilities. Available for sale securities included in Level 2 are estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in inactive markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of FASB ASC Topic 820 – Fair Value Measurements at March 31, 2017 and December 31, 2016 were as follows (dollars in thousands):

	As of March 31, 2017			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$-	$1,000	$ -	$1,000

Non-governmental debt securities	38,597	76,961	-	115,558
Treasury and federal agencies	-	35,362	-	35,362
Totals	$38,597	$113,323	$ -	$151,920

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$-	$4,050	$ -	$4,050
Non-governmental debt securities	33,597	82,214	-	115,811
Treasury and federal agencies	-	36,417	-	36,417
Totals	$33,597	$122,681	$ -	$156,278

Equity Method Investment

Our investment in an equity affiliate, which is recorded within other noncurrent assets on our condensed consolidated balance sheets, represents an international investment in a private company. As of March 31, 2017, our investment in an equity affiliate equated to a 30.7%, or $3.0 million, non-controlling interest in CCKF, a Dublin-based educational technology company providing intelligent adaptive systems to power the delivery of individualized and personalized learning.

During the quarters ended March 31, 2017 and 2016, we recorded approximately $0.2 million and $0.1 million of loss, respectively, related to our proportionate investment in CCKF within miscellaneous income on our unaudited condensed consolidated statements of income and comprehensive income.

We make periodic operating maintenance payments related to proprietary rights that we use in our intellipath™ adaptive learning technology. The total fees paid to CCKF for the quarters ended March 31, 2017 and 2016 were as follows (dollars in thousands):

	Maintenance Fee Payments
For the quarter ended March 31,2017	$ 325
For the quarter ended March 31,2016	$ 342

Credit Agreement

During the fourth quarter of 2015, the Company; its wholly-owned subsidiary, CEC Educational Services, LLC ("CEC-ES"); and the subsidiary guarantors thereunder entered into a Fourth Amendment to its Amended and Restated Credit Agreement dated as of December 30, 2013 (as amended, the "Credit Agreement") with BMO Harris Bank N.A., in its capacities as the initial lender and letter of credit issuer thereunder and the administrative agent for the lenders which from time to time may be parties to the Credit Agreement, to among other things, decrease the revolving credit facility to $95.0 million and require pre-approval by the lenders for each credit extension (other than letter of credit extensions) occurring after December 31, 2015. The revolving credit facility under the Credit Agreement is scheduled to mature on December 31, 2018. The loans and letter of credit obligations under the Credit Agreement are required to be secured by 100% cash collateral. As of March 31, 2017 and December 31, 2016, there were no outstanding borrowings under the revolving credit facility.

5. STUDENT RECEIVABLES

Student receivables represent funds owed to us in exchange for the educational services provided to a student. Student receivables are reflected net of an allowance for doubtful accounts and net of deferred tuition revenue as determined on a student-by-student basis at the end of the reporting period. Student receivables, net are reflected on our condensed consolidated balance sheets as components of both current and non-current assets. We do not accrue interest on past due student receivables; interest is recorded only upon collection.

Generally, a student receivable balance is written off once it reaches greater than 90 days past due. Although we analyze past due receivables, it is not practical to provide an aging of our non-current student receivable balances as a result of the methodology utilized in determining our earned student receivable balances. Student receivables are recognized on our condensed consolidated balance sheets as they are deemed earned over the course of a student's program and/or term, and therefore cash collections are not applied against specifically dated transactions.

Our standard student receivable allowance estimation methodology considers a number of factors that, based on our collection experience, we believe have an impact on our repayment risk and ability to collect student receivables. Changes in the trends in any of these factors may impact our estimate of the allowance for doubtful accounts. These factors include, but are not limited to: internal repayment history, repayment practices of previous extended payment programs, changes in the current economic, legislative or regulatory environments and the ability to complete the federal financial aid process with the student. These factors are monitored and assessed on a regular basis. Overall, our allowance estimation process for student receivables is validated by trending analysis and comparing estimated and actual performance.

Student Receivables Under Extended Payment Plans and Recourse Loan Agreements

To assist students in completing their educational programs, we had previously provided extended payment plans to certain students and also had loan agreements with Sallie Mae and Stillwater National Bank and Trust Company ("Stillwater") which required us to repurchase loans originated by them to our students after a certain period of time. We discontinued providing extended payment plans to students during the first quarter of 2011 and the recourse loan agreements with Sallie Mae and Stillwater ended in March 2008 and April 2007, respectively.

As of March 31, 2017 and December 31, 2016, the amount of non-current student receivables under these programs, net of allowance for doubtful accounts, was $2.9 million and $3.1 million, respectively.

Student Receivables Valuation Allowance

Changes in our current and non-current receivables allowance for the quarters ended March 31, 2017 and 2016 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges to Expense (1)	Amounts Written-off	Balance, End of Period
For the quarter ended March 31, 2017	$ 23,142	$ 8,292	$ (7,281)	$ 24,153
For the quarter ended March 31, 2016	$ 20,229	$ 9,607	$ (7,068)	$ 22,768

(1) Charges to expense include an offset for recoveries of amounts previously written off of $1.5 million and $2.0 million for the quarters ended March 31, 2017 and 2016, respectively.

Fair Value Measurements

The carrying amount reported in our condensed consolidated balance sheets for the current portion of student receivables approximates fair value because of the nature of these financial instruments as they generally have short maturity periods. It is not practicable to estimate the fair value of the non-current portion of student receivables, since observable market data is not readily available, and no reasonable estimation methodology exists.

6. RESTRUCTURING CHARGES

During the past several years, we have carried out reductions in force related to the continued reorganization of our corporate and campus functions to better align with current total enrollments and made decisions to teach out a number of campuses, meaning gradually close the campuses through an orderly process. As part of the process to wind down these teach-out campuses, the Company also announced that it will align its corporate overhead to support a more streamlined and focused operating entity. Most notably, we have recorded charges within our Transitional Group and Culinary Arts segments and our corporate functions as we continue to align our overall management structure. Each of our teach-out campuses offer current students the reasonable opportunity to complete their course of study. The majority of these teach-out campuses are expected to cease operations by 2017 with the remainder expected to cease operations in 2018.

The following table details the changes in our accrual for severance and related costs associated with all restructuring events for our continuing operations during the quarters ended March 31, 2017 and 2016 (dollars in thousands):

	Balance, Beginning of Period	Severance & Related Charges (1) (2)	Payments	Non-cash Adjustments (3)	Balance, End of Period
For the quarter ended March 31, 2017	$ 8,686	$ -	$ (1,889)	$ (173)	$ 6,624

For the quarter ended March 31, 2016	$ 18,985	$ 215	$ (5,325)	$ 478	$ 14,353

(1) Includes charges related to COBRA and outplacement services which are assumed to be completed by the third month following an employee's departure.
(2) Severance charges will result in future cash payments through 2018.
(3) Includes cancellations due to employee departures prior to agreed upon end dates, employee transfers to open positions within the organization and subsequent adjustments to severance and related costs.

The current portion of the accrual for severance and related charges was $5.5 million and $7.3 million, respectively, as of March 31, 2017 and December 31, 2016, which is recorded within current accrued expenses – payroll and related benefits; the long-term portion of $1.1 million and $1.4 million is recorded within other non-current liabilities on our condensed consolidated balance sheets as of March 31, 2017 and December 31, 2016, respectively.

In addition, as of March 31, 2017, we have an accrual of approximately $1.2 million related to retention bonuses that have been offered to certain employees. These amounts are recorded ratably over the period the employees are retained.

In addition to the charges detailed above, a number of the teach-out campuses will have remaining lease obligations following the eventual campus closure, with the longest lease term being through 2023. The total remaining estimated charge as of March 31, 2017, for all restructuring events reported within continuing operations related to the remaining lease obligation for these leases, once the campus completes the close process, and adjusted for possible lease buyouts and sublease assumptions is approximately $15 million - $20 million. The amount related to each campus will be recorded at each campus closure date based on current estimates and assumptions related to the amount and timing of sublease income. This is in addition to approximately $57.4 million of charges related to remaining obligations for continuing operations that were recorded during 2015 through the first quarter of 2017.

Remaining Lease Obligations of Continuing Operations

We have recorded lease exit costs associated with the exit of real estate space for certain campuses related to our continuing operations. These costs are recorded within educational services and facilities expense on our unaudited condensed consolidated statements of income and comprehensive income. The current portion of the liability for these charges is reflected within other accrued expenses under current liabilities and the long-term portion of these charges are included in other liabilities under the non-current liabilities section of our condensed consolidated balance sheets. Changes in our future minimum lease obligations for exited space related to our continuing operations for the quarters ended March 31, 2017 and 2016 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred (1)	Net Cash Payments	Other (2)	Balance, End of Period
For the quarter ended March 31, 2017	$ 36,814	$ 4,457	$ (5,999)	$ (862)	$ 34,410
For the quarter ended March 31, 2016	$ 12,892	$ 3,098	$ (5,277)	$ 905	$ 11,618

(1)Includes charges for newly vacated spaces and subsequent adjustments for accretion, revised estimates and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

(2)Includes existing prepaid rent and deferred rent liability balances for newly vacated spaces that offset the losses incurred in the period recorded.

7. CONTINGENCIES

An accrual for estimated legal fees and settlements of $3.1 million and $34.5 million at March 31, 2017 and December 31, 2016, respectively, is presented within other current liabilities on our condensed consolidated balance sheets.

We record a liability when we believe that it is both probable that a loss will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least quarterly, developments in our legal matters that could affect the amount of liability that was previously accrued, and make adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount. We may be unable to estimate a possible loss or range of possible loss due to various reasons, including, among others: (1) if the damages sought are indeterminate; (2) if the proceedings are in early stages; (3) if there is uncertainty as to the outcome of pending appeals, motions, or settlements; (4) if there are significant factual issues to be determined or resolved; and (5) if there are novel or unsettled legal theories presented. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Litigation

We are, or were, a party to the following legal proceedings that we consider to be outside the scope of ordinary routine litigation incidental to our business. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of these matters. An unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, results of operations, cash flows and financial position.

Surrett, et al. v. Western Culinary Institute, Ltd. and Career Education Corporation. On March 5, 2008, a complaint was filed in Portland, Oregon in the Circuit Court of the State of Oregon in and for Multnomah County naming Western Culinary Institute, Ltd. ("WCI") and the Company as defendants. Plaintiffs filed the complaint individually and as a putative class action and alleged two claims for equitable relief: violation of Oregon's Unlawful Trade Practices Act ("UTPA") and unjust enrichment. Plaintiffs alleged WCI made a variety of misrepresentations to them, relating generally to WCI's placement statistics, students' employment prospects upon graduation from WCI, the value and quality of an education at WCI, and the amount of tuition students could expect to pay as compared to salaries they could expect to earn after graduation. On January 21, 2016, the Oregon appellate court reversed an earlier circuit court denying a motion to compel arbitration and held that the claims by the 1,062 individual class members should be compelled to arbitration. We are waiting for the circuit court to enter an order compelling these claims to arbitration. On January 31, 2017, the circuit court ruled on various pending motions which resulted in the decertification of a class of individuals that had previously been certified in 2010 and granted plaintiff's motion for leave to file an amended putative class complaint which, among other allegations, adds misrepresentation claims based on diminished value. The circuit court also granted plaintiff's motion to add a claim for punitive damages. If class certification is granted, the size of the class would depend on the scope certified by the court but could consist of up to 1,275 members.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because of the inherent difficulty in assessing the appropriate measure of damages and the number of class members who might be entitled to recover damages, if we were to be found liable. Accordingly, we have not recognized any liability associated with this action.

United States of America, ex rel. Ann Marie Rega v. Career Education Corporation, et al. On May 16, 2014, relator Ann Marie Rega, a former employee of Sanford-Brown Iselin, filed an action in the U.S. District Court for the District of New Jersey against the Company and almost all of the Company's individual schools on behalf of herself and the federal government. She alleges claims under the False Claims Act, including that the defendants allegedly provided false certifications to the federal government regarding compliance with certain provisions of the Higher Education Act and accreditation standards. The plaintiff (or "relator") claims that defendants' conduct caused the government to pay federal funds to defendants, and to make payments to third-party lenders, which the government would not have made if not for defendants' alleged violation of the law. Relator seeks treble damages plus civil penalties and attorneys' fees. Relator failed to comply with the statutory requirement that all False Claims Act cases be filed under seal. On June 16, 2014, defendants filed a motion to dismiss the complaint with prejudice as to relator for failure to file her complaint under seal in accordance with the requirements of the False Claims Act.

The Company was contacted by the Civil Division of the U.S. Department of Justice ("DOJ") with a request for certain documents and information relating to relator's claims. The Company is cooperating with the DOJ and provided the requested information in September 2016. We have received no further inquiries from the DOJ since then.

Because it is in the early stages and because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because the complaint does not seek a specified amount of damages and it is unclear how damages would be calculated, if we were to be found liable. Moreover, the case presents novel legal issues. Accordingly, we have not recognized any liability associated with this action.

United States of America, ex rel. Melissa Simms Powell, et al. v. American InterContinental University, Inc., a Georgia Corporation, Career Education Corp., a Delaware Corporation and John Doe Nos. 1-100. On July 28, 2009, we were served with a complaint filed in the U.S. District Court for the Northern District of Georgia, Atlanta Division. This action by four relators alleged violations of the False Claims Act. The United States had declined to intervene in the lawsuit, which was pursued by relators as a qui tam action on behalf of the government.

On February 15, 2017, we entered into a settlement agreement with relators pursuant to which the Company paid $10 million to the United States. The agreement expressly recognizes that, by entering into the agreement, the Company is not admitting to any violations of law or liability with respect to the action and that the Company maintains it acted at all times in compliance with laws and regulations. On February 16, 2017, the United States filed its consent to dismissal of the action with prejudice for the period from December 2007 through May 2009. On February 16, 2017 the case was dismissed with prejudice as to the United States as described and with prejudice as the relators in its entirety. As a result of the settlement, the action has been fully resolved. The settlement enabled the Company to resolve disputed claims without the costs, disruption, uncertainty and expense of further litigation. Further, by eliminating the distraction caused by this lawsuit, the Company's management can provide more attention to the Company's core operations and its goal of enhancing retention and outcomes for our students.

On February 15, 2017, in addition to the settlement described above, the Company entered into a separate settlement agreement with relators for relators' claims for attorneys' fees and costs under 31 U.S.C. § 3730(d)(2). Under the terms of this agreement the Company paid $22 million to the attorneys representing relators. This settlement agreement resolved all claims by relators for their attorneys' fees and costs in connection with the action.

The Company had reserved $32.0 million for these settlements as of December 31, 2016. These amounts were subsequently paid during the first quarter of 2017.

Other Litigation. In addition to the legal proceedings and other matters described above, we are also subject to a variety of other claims, lawsuits, arbitrations and investigations that arise from time to time out of the conduct of our business, including, but not limited to, matters involving prospective students, students or graduates, alleged violations of the Telephone Consumer Protection Act, both individually and on behalf of a putative class, and routine employment matters. While we currently believe that such claims, individually or in aggregate, will not have a material adverse impact on our financial position, cash flows or results of operations, these other matters are subject to inherent uncertainties, and management’s view of these matters may change in the future. Were an unfavorable final outcome to occur in any one or more of these matters, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows and the results of operations for the period in which the effect becomes probable and reasonably estimable.

State Investigations

The Attorney General of Connecticut is serving as the point of contact for inquiries received from the attorneys general of the following: Arkansas, Arizona, Connecticut, Idaho, Iowa, Kentucky, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Washington (January 24, 2014); Illinois (December 9, 2011); Tennessee (February 7, 2014); Hawaii (May 28, 2014); New Mexico (May 2014); Maryland (March 16, 2015); and the District of Columbia (June 3, 2015) (these 18 attorneys general are collectively referred to as the “Multi-State AGs”). In addition, the Company has received inquiries from the attorneys general of Florida (November 5, 2010), Massachusetts (September 27, 2012), Colorado (August 27, 2013) and Minnesota (September 18, 2014, October 25, 2016). The inquiries are civil investigative demands or subpoenas which relate to the investigation by the attorneys general of whether the Company and its schools have complied with certain state consumer protection laws, and generally focus on the Company's practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results and student lending activities, among other matters. Depending on the state, the documents and information sought by the attorneys general in connection with their investigations cover time periods as early as 2006 to the present. The Company continues to cooperate with the states involved with a view towards resolving these inquiries as promptly as possible. In this regard, the Company has participated in several meetings with representatives of the Multi-State AGs about the Company’s business and to engage in a dialogue towards a resolution of these inquiries.

We cannot predict the scope, duration or outcome of these attorneys general investigations. At the conclusion of any of these matters, the Company or certain of its schools may be subject to claims of failure to comply with state laws or regulations and may be required to pay significant financial penalties and/or curtail or modify their operations. Other state attorneys general may also initiate inquiries into the Company or its schools. Based on information available to us at present, we cannot reasonably estimate a range of potential monetary or non-monetary impact these investigations might have on the Company because it is uncertain what remedies, if any, these regulators might ultimately seek in connection with these investigations.

In addition to the aforementioned inquiries, from time to time, we receive informal requests from state attorneys general and other government agencies relating to specific complaints they have received from students or former students which seek information about the student, our programs, and other matters relating to our activities in the relevant state. These requests can be broad and time consuming to respond to, and there is a risk that they could expand and/or lead to a formal inquiry or investigation into our practices in a particular state.

Federal Trade Commission Inquiry

On August 20, 2015, the Company received a request for information pursuant to a Civil Investigative Demand from the U.S. Federal Trade Commission (“FTC”). The request was made pursuant to a November 2013 resolution by the FTC directing an investigation to determine whether unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing or sale of secondary or postsecondary educational products or services, or educational accreditation products or services. The information request requires the Company to provide documents and information regarding a broad spectrum of the business and practices of its subsidiaries and institutions for the time period of January 1, 2010 to the present. The Company is cooperating with the FTC with a view towards resolving these inquiries as promptly as possible.

Because the FTC inquiry is in the early stages and because of the many questions of fact and law that may arise, we cannot predict the outcome of the inquiry. Based on information available to us at present, we cannot reasonably estimate a range of potential monetary or non-monetary impact this inquiry might have on the Company because it is uncertain what remedies, if any, the FTC might ultimately seek in connection with this inquiry.

SEC Inquiry

On June 21, 2016, the Company received a request for documents and information from the Denver Regional Office of the Securities and Exchange Commission (“SEC”) regarding the Company’s fourth quarter 2014 classification of the Company’s Le Cordon Bleu Culinary Arts campuses as held for sale within discontinued operations, subsequent sales process and CEC’s related public disclosures. The Company responded to the SEC’s request on July 6, 2016 and has had no further communication with the SEC on this matter. Given the passage of time, it is not clear what additional requests or action, if any, may be undertaken by the SEC. Should the SEC have further inquiries in this regard, we cannot predict the outcome or estimate the nature or amount of possible remedies, if any, that the SEC might ultimately seek in connection with this matter.

Regulatory Matters

ED Inquiry and HCM1 Status

In December 2011, the U.S. Department of Education ("ED") advised the Company that it is conducting an inquiry concerning possible violations of ED misrepresentation regulations related to placement rates reported by certain of the Company's institutions to accrediting bodies, students and potential students. This inquiry stems from the Company's self-reporting to ED of its internal investigation into student placement determination practices at the Company's previous Health Education segment campuses and review of placement determination practices at all of the Company's other domestic campuses in 2011. The Company has been cooperating with ED in connection with this inquiry. If ED determines that the Company or any of its institutions violated ED misrepresentation regulations with regard to the publication or reporting of placement rates or other disclosures to students or prospective students or finds any other basis in the materials we are providing, ED may revoke, limit, suspend, delay or deny the institution's or all of the Company's institutions' Title IV eligibility, or impose fines. In addition, all of the Company's institutions were issued provisional program participation agreements in May 2016 and this inquiry as well as other matters were cited as bases for that decision. Our ACICS-accredited institutions all have provisional program participation agreements that extend through the duration of their respective closure dates. Each of our remaining institutions applied for recertification by September 30, 2016 in order to continue eligibility to participate in Title IV Programs on a month-to-month basis while ED processes their applications. We cannot predict whether, or to what extent, ED's inquiry might impact the recertification process for the institutions operating with a month-to-month approval.

In December 2011, ED also moved all of the Company's institutions from the "advance" method of payment of Title IV Program funds to cash monitoring status (referred to as Heightened Cash Monitoring 1, or HCM1, status). If ED finds violations of the Higher Education Act or related regulations, ED may impose monetary or program level sanctions, impose some period of delay in the Company's receipt of Title IV funds or transfer the Company's schools to the "reimbursement" or Heightened Cash Monitoring 2 ("HCM2") methods of payment of Title IV Program funds. While on HCM2 status, an institution must disburse its own funds to students, document the students' eligibility for Title IV Program funds and comply with certain waiting period requirements before receiving such funds from ED, which may result in a delay in receiving those funds. The process of re-establishing a regular schedule of cash receipts for the Title IV Program funds if ED places our schools on "reimbursement" or HCM2 payment status could take several months, and would require us to fund ongoing operations substantially out of existing cash balances. If our existing cash balances are insufficient to sustain us through this transition period, we would need to pursue other sources of liquidity, which may not be available or may be costly.

OIG Audit

Our schools and universities are subject to periodic audits by various regulatory bodies, including the U.S. Department of Education's Office of Inspector General ("OIG"). The OIG audit services division commenced a compliance audit of CTU in June 2010, covering the period July 5, 2009 to May 16, 2010 (the "Audit Period"), to determine whether CTU had policies and procedures to ensure that CTU administered Title IV Program and other federal program funds in accordance with applicable federal law and regulation. On January 13, 2012, the OIG issued a draft report identifying three findings, including one regarding the documentation of attendance of students enrolled in online programs and one regarding the calculation of returns of Title IV Program funds arising from student withdrawals without official notice to the institution. CTU submitted a written response to the OIG, contesting these findings, on March 2, 2012. CTU disagreed with the OIG's proposed determination of what constitutes appropriate documentation or verification of online academic activity during the time period covered by the audit. CTU's response asserted that this finding was based on the retroactive application of standards adopted as part of the program integrity regulations that first went into effect on July 1, 2011. The OIG final report, along with CTU's response to the draft report, was forwarded to ED's Office of Federal Student Aid on September 21, 2012. On October 24, 2012, CTU provided a further response challenging the findings of the report directly to ED's Office of Federal Student Aid. As a result of ED's review of these materials, on January 31, 2013, CTU received a request from ED that it perform two file reviews covering the Audit Period to determine potential liability on two discrete issues associated with one of the above findings. The first file review relates to any potential aid awarded to students who engaged in virtual classroom attendance activities prior to the official start date of a course and for which no further attendance was registered during the official class term. The second file review relates to students that were awarded and paid Pell funds for enrollment in two concurrent courses, while only registering attendance in one of the two courses. The Company completed these file reviews and provided supporting documentation to ED on April 10, 2013. On April 29, 2016, ED directed CTU to perform these same two file reviews for an additional time period that extended from the end of the Audit Period through June 30, 2011, which CTU has completed and submitted to ED. On April 29, 2016, ED also requested an additional file review related to whether CTU appropriately performed calculations regarding any required return of Title IV Program funds for students that failed to earn passing grades within a term. This additional file review covers the period from July 5, 2009 to June 30, 2011 and is a review of whether students should be deemed to have unofficially withdrawn from the institution based on each student's last known academically-related activity. CTU is seeking reconsideration of the request for this additional file review. In a May 2016 semi-annual OIG update to Congress, the OIG noted that it and ED's Office of Federal Student Aid have been unable to agree on the appropriate resolution of this audit and ED had planned to refer the matter to the Department's Audit Follow-up Official for dispute resolution. As of March 31, 2017, the Company has a $1.0 million reserve recorded related to this matter. This reserve does not include any amount relating to the additional file review requested by ED on April 29, 2016 because it is uncertain.

8. INCOME TAXES

The determination of the annual effective tax is based upon a number of significant estimates and judgments, including the estimated annual pretax income in each tax jurisdiction in which we operate and the ongoing development of tax planning strategies during the year. In addition, our provision for income taxes can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following is a summary of our provision for income taxes and effective tax rate from continuing operations (dollars in thousands):

	For the Quarter Ended March 31,