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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File No: 001-34466

EDUCATION MANAGEMENT CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1119571**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
210 Sixth Avenue, Pittsburgh, PA, 33rd Floor	**15222**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (412) 562-0900

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Global Select Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of December 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $200.7 million. As of October 16, 2014, there were 126,059,632 shares of the registrant's common stock outstanding.

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PART I

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Form 10-K") contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are based on information currently available to management and concern our strategy, plans or intentions, typically contain words such as “anticipates”, “believes”, “expects”, “intends”, “may”, “will”, “should”, “seeks”, “approximately”, “plans”, “estimates” or similar words. However, the absence of these or similar words does not mean that a particular statement is not forward-looking. All statements that we make relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, from time to time, we make forward-looking public statements concerning our expected future operations and performance and other developments. These and other forward-looking statements involve estimates, assumptions, known and unknown risks and uncertainties and other factors that may change at any time, and, therefore, our actual results may differ materially and unpredictably from any future results, performance or achievements expressed or implied by such forward-looking statements. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions, and we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations are disclosed under “Risk Factors” and elsewhere in this Form 10-K, including, without limitation, in conjunction with the forward-looking statements included in this Form 10-K. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the factors discussed in this Form 10-K. Some of the factors that we believe could affect our results and that could cause actual results to differ materially from our expectations include, but are not limited to:

- compliance with extensive federal, state and accrediting agency regulations and requirements;
- our ability to maintain eligibility to participate in Title IV programs;
- other changes in our students' ability to access federal and state financial aid and veteran education benefits, as well as private loans from third-party lenders;
- government and regulatory changes, including revised interpretations of regulatory requirements that affect the post-secondary education industry and new regulations adopted by the U.S. Department of Education;
- the timing and magnitude of student enrollment and changes in student mix, including the relative proportions of campus-based and online students enrolled in our programs;
- consummation of the transactions contemplated by the Restructuring Support Agreement we entered into on September 4, 2014;
- failure to effectively market and advertise to new students;
- changes in average registered credits taken by students;
- the implementation of new operating procedures for our fully-online programs;
- adjustments to our programmatic offerings to comply with the 90/10 rule;
- our ability to comply with the provisions of any "gainful employment" regulation which may be adopted by the U. S. Department of Education;
- any difficulties we may face in opening additional schools and otherwise expanding our academic programs;
- our ability to improve existing academic programs or to develop new programs on a timely basis and in a cost-effective manner;
- the results of federal, state and accrediting agency program reviews and audits;
- our high degree of leverage and our ability to generate sufficient cash to service all of our debt obligations and other liquidity needs;
- compliance with restrictions and other terms in our debt agreements, some of which are beyond our control;
- our ability to raise additional capital in the future in light of our substantial leverage;
- our ability to keep pace with changing market needs and technology;
- investigations by and regulations promulgated by the Consumer Financial Protection Bureau;
- investigations by and regulations promulgated by the Federal Trade Commission or other regulatory agencies;
- increased or unanticipated legal and regulatory costs;
- capacity constraints or system disruptions to our online computer networks;
- the vulnerability of our online computer networks to privacy and security risks;

- our failure to attract, integrate, and retain qualified management personnel;
- competitors with greater resources;
- declines in the overall growth of enrollment in post-secondary institutions;
- other market and credit risks associated with the post-secondary education industry, adverse media coverage of the industry and overall condition of the industry;
- changes in the overall U.S. or global economy;
- whether we delist or deregister our common stock;
- disruptions or other changes in access to the credit and equity markets in the United States and worldwide;
- effects of a general economic slowdown or recession in the United States or abroad;
- the effects of war, terrorism, natural disasters and other catastrophic events;
- the required restatement of any of our consolidated financial statements;
- other risks inherent in non-domestic operations; and
- any other factors set forth under Item 1A, “Risk Factors."

We caution you that the foregoing list of important factors may not contain all of the material factors that could affect our results. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

ITEM 1. BUSINESS

On June 1, 2006, EDMC was acquired by a consortium of private investors through a merger of an acquisition company into EDMC, with EDMC surviving the merger (the "Transaction"). As used in this Form 10-K, unless otherwise stated or the context otherwise requires, references to "we", "us", "our", the "Company", and similar references refer collectively to Education Management Corporation and its subsidiaries and references to "EDMC" refer to Education Management Corporation. References to our fiscal year refer to the 12-month period ended June 30 of the year referenced.

Business Overview

We are among the largest providers of post-secondary education in North America, with approximately 125,560 enrolled students as of October 2013, offering academic programs to our students through campus-based and online instruction, or through a combination of both. We are committed to offering quality academic programs and strive to improve the learning experience for our students to help them achieve their educational goals across the spectrum of in-demand careers. We target a large and diverse market, as our educational institutions offer students the opportunity to earn undergraduate and graduate degrees, including doctoral degrees, and certain specialized non-degree diplomas in a broad range of disciplines. These disciplines include media arts, health sciences, design, psychology and behavioral sciences, culinary, business, fashion, legal, education and information technology.

Each of our schools located in the United States is licensed or otherwise authorized to offer post-secondary programs in the state in which it is located, accredited by a national or regional accreditation agency and certified by the U.S. Department of Education, enabling students to access federal student loans, grants and other forms of public and private financial aid. Our innovative academic programs are designed with an emphasis on employment-focused content and technology that advances education, and are taught primarily by faculty members who, in addition to having appropriate academic credentials, offer practical and relevant professional experience in their respective fields. We had net revenues of $2.3 billion in fiscal 2014 and had approximately 20,800 employees as of June 30, 2014.

Our schools comprise a national education platform that is designed to address the needs of a broad and diverse market, taking into consideration various factors that influence demand, such as programmatic and degree interest, employment opportunities, requirements for credentials in certain professions, demographics, tuition pricing points and economic conditions. We believe that our schools collectively enable us to provide access to a high quality education for potential students, at a variety of degree levels and across a wide range of disciplines.

During our more than 40-year operating history, we have expanded the reach of our education systems and currently operate 110 primary locations across 32 U.S. states and in Canada. In addition, we have offered online programs since 2000, enabling our students to pursue degrees fully-online or through a flexible combination of both online and campus-based education. We strive to maintain a culture of compliance within our organization with the numerous laws and regulations that govern our business and operations.

Each of our 110 schools provides student-centered education. Our schools are organized and managed to capitalize on our four recognized brands and align them with specific targeted markets based on field of study, employment opportunity, type of degree offering and student demographics. Our operations are organized into four corresponding reportable segments:

- *The Art Institutes.* The Art Institutes focus on applied arts in creative professions such as graphic design, media arts and animation, culinary arts, photography, digital filmmaking and video production, interior design, audio production, fashion design, game art and design, baking and pastry, and fashion marketing. The Art Institutes offer Associate's, Bachelor's and Master's degree programs, as well as selective non-degree diploma programs. Students pursue their degrees through local campuses, fully-online programs through The Art Institute of Pittsburgh, Online Division and blended formats, which combine campus-based and online education. As of June 30, 2014, there were 51 Art Institutes campuses in 25 U.S. states and in Canada. As of October 2013, students enrolled at The Art Institutes represented approximately 53% of our total enrollments.
- *Argosy University.* Argosy University offers academic programs in psychology and behavioral sciences, business, legal, education and health sciences disciplines. Argosy University offers Doctoral, Master's and undergraduate degrees through local campuses, fully-online programs and blended formats. Argosy University's academic programs largely focus on graduate students seeking advanced credentials as a prerequisite to initial licensing, career advancement and/or structured pay increases. As of June 30, 2014, there were 20 Argosy University campuses in 13 U.S. states. As of October 2013, students enrolled at Argosy University represented approximately 19% of our total enrollments. This segment includes Western State College of Law, which offers Juris Doctor degrees, and the Ventura Group, which provides courses and materials for post-graduate licensure examinations in the behavioral sciences fields and continuing education courses for K-12 educators.

- *Brown Mackie Colleges.* Brown Mackie Colleges offer flexible Associate's and non-degree diploma programs that enable students to develop skills for entry-level positions in high demand vocational specialties and Bachelor's degree programs that assist students to advance within the workplace. Brown Mackie Colleges offer programs in fields such as medical assisting, business, criminal justice, occupational therapy assistant, healthcare administration, and veterinary technology. As of June 30, 2014, there were 28 Brown Mackie College campuses in 15 U.S. states. As of October 2013, students enrolled at Brown Mackie Colleges represented approximately 13% of our total enrollments.

- *South University.* South University offers academic programs in health profession and business disciplines, including business administration, health sciences, nursing, criminal justice, psychology, information technology, and healthcare management. South University offers Doctoral, Master's, Bachelor's and Associate's degrees through local campuses, fully-online programs and blended formats. As of June 30, 2014, there were 11 South University campuses in nine U.S. states. As of October 2013, students enrolled at South University represented approximately 15% of our total enrollments.

Debt Restructuring

At June 30, 2014, we had $1.5 billion of indebtedness outstanding, which consisted of approximately $1.3 billion outstanding on our senior credit facility, consisting of approximately $1.1 billion of term loans and $220 million drawn on a revolving credit facility, and approximately $216 million of Senior cash pay/PIK notes due 2018 (the "Cash Pay/PIK Notes"). We have experienced deteriorating results from operations over the last several fiscal years due to the stagnant U.S. economy, the substantial decrease in the availability of private lending sources to fund tuition and fees, the loss of federal and state support for student financial aid, the impact of adverse publicity related to the proprietary education industry, student concerns about incurring debt to fund their education, the impact of new regulations, and our inability to increase tuition rates, among other factors. Our net revenues were $2.9 billion, $2.8 billion, $2.5 billion and $2.3 billion in fiscal 2011, fiscal 2012, fiscal 2013 and fiscal 2014, respectively. We announced in May 2014 that we did not anticipate being in compliance as of June 30, 2014 with the maximum total leverage ratio and minimum interest coverage ratio financial covenants included in our senior credit facility. In order to address our covenant compliance and debt maturity issues, we engaged in negotiations with our creditors and, after obtaining a waiver of the financial covenants under our senior credit facility through September 15, 2014, entered into the following agreements:

- an amendment agreement dated September 5, 2014 (the "Amendment Agreement") with the holders of in excess of 98% of the term loan facilities and 100% of the revolving credit facility (collectively, the "Consenting Lenders") pursuant to which, among other things, (i) the maturity on the revolving credit facility was extended from June 1, 2015 to July 2, 2015, (ii) the Consenting Lenders under the revolving credit facility agreed to accept payment of interest in kind rather than cash through June 30, 2015, (iii) the Consenting Lenders holding term loans agreed that no amortization payments will be payable through June 30, 2015 and to accept the payment of interest in kind rather than cash through June 30, 2015, (iv) EDMC became a guarantor and granted a lien on substantially all of its assets to secure the obligations under the agreement, (v) compliance with the financial covenants was waived through June 30, 2015, and (vi) the security agreement governing the credit facility was amended such that the collateral proceeds "waterfall" set forth therein now provides that obligations owing to any lenders that are not Consenting Lenders shall be paid only after satisfaction in full of obligations owing to Consenting Lenders and swap counterparties who have executed the RSA (as defined below);
- a supplemental indenture dated September 5, 2014 (the "Supplemental Indenture") pursuant to which the Indenture governing the Cash Pay/PIK Notes was amended (i) to require us to offer all holders of the Cash Pay/PIK Notes the opportunity to receive the same consideration in the Debt Restructuring (as defined below) as holders of the Interim Notes (as defined below), (ii) to provide for (a) the release of EDMC's guarantee and (b) the termination of certain covenants and certain events of default, in each case upon the completion of the exchange of Cash Pay/PIK Notes and Interim Notes contemplated by the Debt Restructuring and (iii) to provide that if Education Management LLC is no longer subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, it will not be required to file reports with the Securities and Exchange Commission but instead will be required to distribute annual, quarterly and current reports to the trustee under the Indenture and hold a conference call within 20 business days of furnishing required annual and quarterly reports;
- an exchange agreement dated September 5, 2014 (the "Exchange Agreement"), pursuant to which the holders of in excess of 86% of the outstanding Cash Pay/PIK Notes exchanged their Cash Pay/PIK Notes for a like principal amount of new Senior PIK Toggle Notes due 2018 (the "Interim Notes" and together with the Cash Pay/PIK Notes, the "Notes"), whose terms are substantially similar to those of the Cash Pay/PIK Notes, except that their interest is payable entirely in kind for the two interest periods ending September 30, 2014 and March 30, 2015;
- a new indenture dated September 5, 2014 (the "New Indenture") pursuant to which the Interim Notes were issued; and

- a restructuring support agreement dated September 4, 2014 (the "RSA") pursuant to which the Consenting Lenders, holders of in excess of 65% of the outstanding Notes (the "Consenting Noteholders"), certain of our swap counterparties and holders of in excess of 72% of our outstanding common stock (the "Consenting Shareholders") agreed to support a comprehensive debt restructuring (the "Debt Restructuring") as described below.

  Pursuant to the Debt Restructuring:

- $150 million of revolving loans under our existing revolving credit facility will be repaid in cash at par, with such amount available for re-borrowing under a new revolving credit facility;
- the remaining portion of our $1.5 billion of outstanding indebtedness, including the Interim Notes, will be exchanged for two first lien senior secured term loans due July 2, 2020 in the aggregate principal amount of $400 million, mandatorily convertible preferred stock, optionally convertible preferred stock and warrants for common stock; and
- our current shareholders will retain their outstanding common stock, which in aggregate will equal 4% of our outstanding common stock after giving effect to the conversion of all of the preferred stock described above and subject to further dilution by a management incentive plan (the "MIP") and warrants (including those described in the next sentence) to be awarded pursuant to the Debt Restructuring. In addition, current shareholders will receive warrants for 5% our common stock (subject to dilution by the MIP).

Subject to receipt of applicable regulatory approvals, we anticipate distributing the consideration described above on or about October 30, 2014 in connection with the contemplated closing of an exchange offer for the Cash Pay/PIK Notes and Interim Notes. However, the mandatory or voluntary conversion, as the case may be, of new preferred stock and the exercise of warrants will remain subject to a shareholder vote to amend the charter of EDMC and regulatory approval (including from the U.S. Department of Education, accrediting agencies and state licensing agencies), which we anticipate obtaining in 2015.

Strategic Focus

We have defined four strategic priorities for our organization aligned with our focus on student success:

- *Focus on Student Outcomes*. Our education programs offer our students opportunities which are aligned with labor market demand and student completion. We seek to identify emerging industry trends in order to understand the evolving educational needs of our students and graduates. Our student-centric, flexible programs are designed to meet the needs of employers and students. We focus on preparing students for in-demand careers, employing innovative teaching methods and technology. Our staff of trained, dedicated career services specialists maintains solid relationships with employers in order to improve our student graduate employment rates in their chosen fields. We continually evaluate student persistence using multiple metrics, including overall persistence under the Accrediting Council of Independent Colleges and Schools (ACICS) criteria; our internal 180-day new student cohort retention rate; and graduate completion results. Our experience indicates that the majority of students who withdraw from school typically do so within their first few academic terms. Accordingly, we track new students' persistence to focus additional efforts to keep them in school.
- *Improve the Affordability of our Programs.* The cost of obtaining a post-secondary degree has increased substantially over the last decade while incomes earned by families have stagnated. In addition, the availability of state grants and other financial aid sources for students has decreased due to budgetary constraints. In order to address these issues, we have introduced a number of initiatives to limit or decrease the cost of obtaining a degree from one of our institutions, including freezing tuition at The Art Institutes through 2015 for students who enrolled by October 2013, decreasing the number of credit hours necessary to complete certain programs and substantially increasing the availability of scholarships to students. We recently introduced The ART Grant at certain of our Art Institutes school locations which will provide up to a 15% discount off tuition for students pursuing Associate's degrees and up to a 20% discount off tuition for students pursuing Bachelor's degrees. Due to these initiatives, we estimate that the average debt incurred by students graduating from The Art Institutes has decreased by approximately 15% since fiscal 2010.
- *Strive to Achieve High Standards of Compliance Across the Organization*. The proprietary education industry has come under a significant level of scrutiny in the last few years, with numerous regulatory and enforcement agencies launching investigations and adopting new rules and regulations. In response, we have increased our emphasis on compliance efforts across our education systems.
- *Further Integrate our Accredited Institutions*. Our 110 school locations are currently organized into 18 accredited institutions recognized by the U.S. Department of Education. Over the last several years we have consolidated a number of our institutions in order to achieve operational efficiencies and support our student affordability efforts. We plan to continue to pursue opportunities to integrate our schools and believe that these efforts will allow us to enhance our programmatic and degree offerings for students, decrease our administrative costs by simplifying our structure and

streamlining our compliance efforts, and better standardize the rollout of academic programs across our national footprint.

Business Segments

The net revenues for fiscal years 2014, 2013 and 2012 for each of our reportable segments were as follows (in thousands):

	For the Twelve Months Ended June 30,		
Net Revenues:	**2014**	**2013**	**2012**
The Art Institutes	$ 1,386,729	$ 1,543,385	$ 1,738,542
Argosy University	321,118	356,544	397,458
Brown Mackie Colleges	265,606	298,175	314,801
South University	299,283	300,495	310,166
Total EDMC	$ 2,272,736	$ 2,498,599	$ 2,760,967

See Part II – Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II – Item 8 – "Financial Statements and Supplementary Data," Note 17, "Segments" for more information.

The following table shows the location of each campus within each of our four reportable segments at June 30, 2014, the name under which it operates, the year of its establishment and the date we opened or acquired it.

The Art Institutes®	Location	Calendar Year Established	Fiscal Year Acquired or Opened
The Art Institute of Atlanta	Atlanta, GA	1949	1971
The Art Institute of Atlanta — Decatur	Decatur, GA	2007	2008
The Art Institute of Austin	Austin, TX	2008	2008
The Art Institute of California — Hollywood	Los Angeles, CA	1991	2003
The Art Institute of California — Inland Empire	San Bernardino, CA	2006	2006
The Art Institute of California — Los Angeles	Los Angeles, CA	1997	1998
The Art Institute of California — Orange County	Orange County, CA	2000	2001
The Art Institute of California — Sacramento	Sacramento, CA	2007	2007
The Art Institute of California — San Diego	San Diego, CA	1981	2001
The Art Institute of California — San Francisco	San Francisco, CA	1939	1998
The Art Institute of California — Sunnyvale	Sunnyvale, CA	2008	2008
The Art Institute of Charleston	Charleston, SC	2007	2007
The Art Institute of Charlotte	Charlotte, NC	1973	2000
The Art Institute of Colorado	Denver, CO	1952	1976
The Art Institute of Dallas	Dallas, TX	1964	1985
The Art Institute of Fort Lauderdale	Fort Lauderdale, FL	1968	1974
The Art Institute of Fort Worth	Fort Worth, TX	2009	2010
The Art Institute of Houston	Houston, TX	1974	1979
The Art Institute of Houston — North	Houston, TX	2008	2009
The Art Institute of Indianapolis	Indianapolis, IN	2006	2006
The Art Institute of Jacksonville	Jacksonville, FL	2007	2007
The Art Institute of Las Vegas	Las Vegas, NV	1983	2001
The Art Institute of Michigan	Detroit, MI	2007	2008
The Art Institute of Michigan — Troy	Troy, MI	2011	2011
The Art Institute of New York City	New York, NY	1980	1997
The Art Institute of Ohio — Cincinnati	Cincinnati, OH	2004	2005
The Art Institute of Philadelphia	Philadelphia, PA	1971	1980
The Art Institute of Phoenix	Phoenix, AZ	1995	1996
The Art Institute of Pittsburgh	Pittsburgh, PA	1921	1970
The Art Institute of Portland	Portland, OR	1963	1998
The Art Institute of Raleigh-Durham	Durham, NC	2008	2008
The Art Institute of Salt Lake City	Salt Lake City, UT	2007	2007
The Art Institute of San Antonio	San Antonio, TX	2010	2010
The Art Institute of Seattle	Seattle, WA	1946	1982
The Art Institute of St. Louis	St. Charles, MO	2012	2012
The Art Institute of Tampa	Tampa, FL	2004	2004
The Art Institute of Tennessee — Nashville	Nashville, TN	2006	2007
The Art Institute of Tucson	Tucson, AZ	2002	2007
The Art Institute of Vancouver	Vancouver, BC	1979	2003
The Art Institute of Virginia Beach	Virginia Beach, VA	2009	2010

School	Location	Calendar Year Established	Fiscal Year Acquired or Opened
The Art Institute of Washington	Arlington, VA	2000	2001
The Art Institute of Washington — Dulles	Sterling, VA	2009	2009
The Art Institute of Wisconsin	Milwaukee, WI	2010	2010
The Art Institute of York — Pennsylvania	York, PA	1952	2004
The Art Institutes International — Kansas City	Kansas City, KS	2008	2008
The Art Institutes International Minnesota	Minneapolis, MN	1964	1997
The Illinois Institute of Art — Chicago	Chicago, IL	1916	1996
The Illinois Institute of Art — Schaumburg	Schaumburg, IL	1983	1996
The Illinois Institute of Art — Tinley Park	Tinley Park, IL	2011	2011
Miami International University of Art & Design	Miami, FL	1965	2002
The New England Institute of Art	Boston, MA	1988	2000

ARGOSY UNIVERSITY	Location	Calendar Year Established	Fiscal Year Acquired or Opened
Argosy University, Atlanta	Atlanta, GA	1990	2002
Argosy University, Chicago	Chicago, IL	1976	2002
Argosy University, Dallas	Dallas, TX	2002	2002
Argosy University, Denver	Denver, CO	2006	2006
Argosy University, Hawaii	Honolulu, HI	1979	2002
Argosy University, Inland Empire	San Bernardino, CA	2006	2006
Argosy University, Los Angeles	Santa Monica, CA	2006	2006
Argosy University, Nashville	Nashville, TN	2001	2002
Argosy University, Orange County	Orange, CA	1999	2002
Argosy University, Phoenix	Phoenix, AZ	1997	2002
Argosy University, Salt Lake City	Salt Lake City, UT	2008	2008
Argosy University, San Diego	San Diego, CA	2006	2006
Argosy University, San Francisco	Point Richmond, CA	1998	2002
Argosy University, Sarasota	Sarasota, FL	1969	2002
Argosy University, Schaumburg	Schaumburg, IL	1979	2002
Argosy University, Seattle	Seattle, WA	1997	2002
Argosy University, Tampa	Tampa, FL	1997	2002
Argosy University, Twin Cities	Eagan, MN	1961	2002
Argosy University, Washington D.C.	Arlington, VA	1994	2002
Western State College of Law	Fullerton, CA	1966	2002

BROWN MACKIE COLLEGE®	Location	Calendar Year Established	Fiscal Year Acquired or Opened
Brown Mackie College — Akron	Akron, OH	1980	2004
Brown Mackie College — Albuquerque	Albuquerque, NM	2010	2010
Brown Mackie College — Atlanta	Norcross, GA	1969	2004
Brown Mackie College — Birmingham	Birmingham, AL	2010	2011
Brown Mackie College — Boise	Boise, ID	2008	2008
Brown Mackie College — Cincinnati	Cincinnati, OH	1927	2004
Brown Mackie College — Dallas	Dallas, TX	2012	2012
Brown Mackie College — Findlay	Findlay, OH	1986	2004
Brown Mackie College — Fort Wayne	Fort Wayne, IN	1991	2004
Brown Mackie College — Greenville	Greenville, SC	2009	2009
Brown Mackie College — Hopkinsville	Hopkinsville, KY	1995	2004
Brown Mackie College — Indianapolis	Indianapolis, IN	2007	2008
Brown Mackie College — Kansas City	Lenexa, KS	1984	2004
Brown Mackie College — Louisville	Louisville, KY	1935	2004
Brown Mackie College — Merrillville	Merrillville, IN	1984	2004
Brown Mackie College — Miami	Miami, FL	2004	2005
Brown Mackie College — Michigan City (1)	Michigan City, IN	1890	2004
Brown Mackie College — North Canton	North Canton, OH	1984	2004
Brown Mackie College — Northern Kentucky	Ft. Mitchell, KY	1927	2004
Brown Mackie College — Oklahoma City	Oklahoma City, OK	2011	2011
Brown Mackie College — Phoenix	Phoenix, AZ	2008	2009
Brown Mackie College — Quad Cities	Quad Cities, IA	1985	2004
Brown Mackie College — Salina	Salina, KS	1892	2004
Brown Mackie College — San Antonio	San Antonio, TX	2010	2010
Brown Mackie College — South Bend	South Bend, IN	1882	2004
Brown Mackie College — St. Louis	St. Louis, MO	2009	2010
Brown Mackie College — Tucson	Tucson, AZ	1972	2007
Brown Mackie College — Tulsa	Tulsa, OK	2008	2009

South UNIVERSITY℠ ESTABLISHED 1899	Location	Calendar Year Established	Fiscal Year Acquired or Opened
South University/ Austin	Austin, TX	2011	2012
South University/ Cleveland	Cleveland, OH	2012	2012
South University/ Columbia	Columbia, SC	1935	2004
South University/ High Point	High Point, NC	2012	2013
South University/ Montgomery	Montgomery, AL	1997	2004
South University/ Novi	Novi, MI	2009	2010
South University/ Richmond	Richmond, VA	2009	2009
South University/ Savannah	Savannah, GA	1899	2004
South University/ Tampa	Tampa, FL	2006	2006
South University/ Virginia Beach	Virginia Beach, VA	2010	2010
South University/ West Palm Beach	West Palm Beach, FL	1974	2004

(1) We plan to close the school location and are teaching-out current students.

As more fully described under "Accreditation," at June 30, 2014 we had 18 accredited "institutions" that are eligible to participate in Title IV federal financial aid programs administered by the U.S. Department of Education. We use the term "institution" to refer collectively to an accredited school and its associated branch campuses and additional locations. Certain schools included within The Art Institutes segment are branches of the South University or Argosy University institutions for purposes of accreditation and Title IV participation, and certain schools included within the Brown Mackie Colleges segment are branches of The Art Institute of Phoenix institution for accreditation and Title IV purposes. Western State College of Law is a campus of Argosy University and included within the Argosy University segment. See Part II - Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II - Item 8 - "Financial Statements and Supplementary Data," Note 1, "Description of Business and Change in Ownership," and Note 17, "Segments" for more information.

We and other proprietary post-secondary education providers have experienced a number of recent challenges that have resulted in declines in enrollment at many of our schools, which have negatively impacted our financial results. As detailed by segment in the following table, the average enrolled student body at our schools decreased by 7.3% on a consolidated basis during fiscal 2014 as compared to fiscal 2013.

	Average Enrolled Student Body (1)(2)		
	Fiscal 2014	**Fiscal 2013**	***% Change***
The Art Institutes	61,070	66,440	*(8.1)%*
Argosy University	23,260	24,910	*(6.6)%*
Brown Mackie Colleges	15,560	17,070	*(8.8)%*
South University	18,200	18,940	*(3.9)%*
Total EDMC	118,090	127,360	*(7.3)%*

(1) Data includes the number of students enrolled in fully-online programs at The Art Institute of Pittsburgh, Argosy University and South University.

(2) Average enrolled student body is the twelve month average of the unique students who met attendance requirements within each month of the fiscal year.

The recent challenges that we face include, among others: the increased focus on regulations designed to address the rising costs of post-secondary education may have significant impact on our business; student concerns regarding the assumption of additional debt in light of the current economic climate have given rise to reluctance to pursue further education; changes in the availability of PLUS program loans have contributed to a decline in student enrollment and net revenues; investigations of proprietary education institutions, adverse publicity, and outstanding litigation have adversely impacted our operating results; and the education industry is rapidly evolving and highly competitive, including with regard to distance learning or online education programs, resulting in increased competition for students. In spite of these challenges, we continue to make capital investments in technology and human resources and to upgrade our infrastructure, student interfaces, and student support systems in an effort to enhance the student experience while providing greater operational transparency. Refer to Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

Industry Overview

In its December 2013 report, "Enrollment in Postsecondary Institutions, Fall 2012," and from the Advance Release of Selected 2013 Digest of Education Statistics Tables, the U.S. Department of Education estimated that the U.S. public and private post-secondary education market for degree-granting institutions was a $500 billion industry in 2012 (the most recent year for which such data is available), representing approximately 21 million students enrolled at over 4,700 institutions. According to the National Center of Education Statistics, traditional students, who typically are recent high school graduates under 25 years of age and are pursuing their first higher education degree, represent approximately 60% of the national student population. The remaining 40% of the student population is comprised of non-traditional students, who are largely working adults pursuing further education in their current field or preparing for a new career.

Although recently the industry as a whole has been challenged by state and federal regulatory pressures, negative media coverage, widespread enrollment declines and the overall negative impact of the current political and economic climate, there remain a number of factors that should contribute to long-term demand for post-secondary education. The continuing shift toward a services-based economy increases the demand for higher levels of education.

The Georgetown University Center on Education and the Workforce published a report in June 2013 titled "Recovery - Job Growth and Education Requirements through 2020." According to the report, by 2020:

- There will be 55 million job openings in the United States - 24 million openings from newly created jobs and 31 million from retirements.

- The total number of jobs in the United States will grow to 165 million, 65% of which will require post-secondary education.
- Based on the current production rate, the United States will fall short by 5 million workers with post-secondary education.

According to the U.S. Department of Labor — Bureau of Labor Statistics, in 2013 the median weekly earnings for individuals aged 25 years and older with a Bachelor's degree was approximately 70% higher than for high school graduates of the same age with no college experience, and the average unemployment rate in 2013 for persons aged 25 years and older with a Bachelor's degree was nearly half that of those without college experience. See Part I, Item 1A "Risk Factors – Risks Related to Our Highly Regulated Industry."

The post-secondary education industry is highly fragmented, with no one provider controlling a significant share of the market. Students choose among providers based on programs and degrees offered, program flexibility and convenience, quality of instruction, graduate employment rates, reputation and recruiting effectiveness. This multi-faceted market fragmentation results in significant differentiation among various education providers, limited direct competition and minimal overlap between proprietary providers. The main competitors of proprietary, post-secondary education providers are local public and private two-year junior and community colleges, traditional public and private undergraduate and graduate colleges and, to a lesser degree, other proprietary providers.

Although competition exists, proprietary educators serve a segment of the market for post-secondary education that we believe has not been fully addressed by traditional public and private universities. Non-profit public and private institutions can face limited financial capability to expand their offerings in response to growth or changes in the demand for education, due to a combination of state funding challenges, significant expenditures required for research and the professor tenure system. Certain private institutions also may control enrollments to preserve the perceived prestige and exclusivity of their degree offerings. In contrast, proprietary providers of post-secondary education offer potential students the greater flexibility and convenience of their schools' programmatic offerings and learning structure, an emphasis on applied content and an ability to consistently introduce new campuses and academic programs. At the same time, the share of the post-secondary education market that has been captured by proprietary providers remains relatively small. As a result, we believe that in spite of recent regulatory changes and other challenges facing the industry, proprietary, post-secondary education providers continue to have significant opportunities to address the demand for post-secondary education.

Our Competitive Strengths

We believe that the following strengths differentiate our business:

Commitment to offering quality academic programs and to student and graduate success. We are committed to offering quality academic programs, and we strive continually to improve the learning experience for our students. We are dedicated to recruiting and retaining quality faculty and instructors with relevant industry experience and appropriate academic credentials. Our program advisory boards help us to reassess and update our educational offerings on a regular basis in order to ensure the relevance of our curriculum and to design new academic programs with the goal of enabling students to either enter or advance in their chosen fields. We seek to identify emerging industry trends in order to understand the evolving educational needs of our students and graduates. We are able to rapidly develop new academic programs and to tailor our existing proprietary content for courses across our degree programs. In addition, we introduce existing academic programs to additional locations in our national platform of schools. Additionally, our staff of trained, dedicated career services specialists maintains strong relationships with employers in an effort to improve our graduate employment rates for our students in their chosen fields.

Recognized brands aligned with specific fields of study and degree offerings. We offer academic programs primarily through four education systems. We have devoted significant resources to establishing, and continue to invest in developing, the brand identity for each education system. Through The Art Institutes, Argosy University, Brown Mackie Colleges and South University education systems, we have the ability to align our academic program offerings to address the unique needs of specific student groups. Our marketing strategy is designed to develop brand awareness among practitioners and likely prospects in particular fields of study. We believe that this comprehensive brand building approach in each specific market also enables us to gain economies of scale with respect to student acquisition and retention costs, assisting in the recruitment and retention of quality faculty and staff members.

Diverse program offerings and broad degree capabilities. Our breadth of programmatic and degree offerings enables us to appeal to a diverse range of potential students. We currently offer academic programs in the following areas: media arts, health sciences, design, psychology and behavioral sciences, culinary, business, fashion, legal, education and information technology. Approximately 61% of our students as of October 2013 were enrolled in Doctorate, Master's and Bachelor's degree programs, which are typically multi-year programs that contribute to the overall stability of our student population. We monitor and adjust our education offerings based on, among other factors, changes in demand for new programs, degrees, schedules and delivery methods.

National platform of schools and integrated online learning platform. The combination of our national platform of schools and integrated online learning platform provides students at three of our education systems with flexible curriculum delivery options and academic programs taught on campus, online and in blended formats. This flexibility enables our academic programs to appeal to both traditional students and working adults who may seek convenience due to scheduling, geographical or other constraints.

Our campuses are located primarily in large metropolitan areas, and we focus our marketing efforts on demand for post-secondary education primarily within a 100-mile radius of the campus. Throughout our history, we have invested in our campuses in order to provide attractive and efficient learning environments. Our schools offer many amenities found in traditional colleges, including libraries, bookstores and laboratories, as well as the industry-specific equipment necessary for the various programs that we offer. Additionally, we continue to believe that attractive locations are available to open additional campuses. In evaluating potential new locations, we focus our efforts on markets that we believe offer the most attractive projected growth and return on capital, and we rigorously analyze employment statistics and demographic data in order to align our new schools with the specific educational needs of the targeted market.

Student Recruitment and Marketing

Our diverse marketing activities are designed to reinforce our stature as a leading provider of high quality educational programs, build strong brand recognition for our diverse education systems and academic disciplines, differentiate us from other educational providers and ultimately to motivate prospective students to express interest in our programs. We target a large and diverse audience, including traditional new college students, working adults seeking a high quality education in a non-traditional college setting and working adults focused on the practicality and convenience of online education. In marketing our programs to prospective students, we emphasize the value of the educational experience, the academic rigor of the programs and the role education can serve in their career advancement goals.

Our marketing teams employ an integrated, cross-channel marketing approach that utilizes a variety of communications channels to engage prospective students, including Internet-based advertising such as natural and paid search; display advertising; the direct purchase of inquiries from online education content publishers; and lead aggregators. In addition, we leverage significant traditional media, which include: television and print media advertising; radio; local newspaper; and engaging prospective students directly via telephone, e-mail and direct mail campaigns. Referrals from willing current students, successful alumni and satisfied employers are also important sources of new students. The majority of our inquiries are generated through Internet-based activities. Prospective students frequently research education opportunities online through search engines, social network sites, education portals and school-specific sites which we host for each of our school locations. As of June 30, 2014, we employed approximately 260 representatives who engage with prospective students directly at local high schools. These representatives also participate in college fairs and other inquiry-generating activities.

Upon a prospective student's initial indication of interest in enrolling at one of our schools, an admissions representative will initiate communication with the student. The admissions representative serves as our primary contact for the prospective student and helps the student assess the compatibility of his or her goals with our educational offerings. Our student services personnel work with applicants to gain acceptance, arrange financial aid and prepare the student for matriculation. Each admissions representative undergoes a standardized training program, which includes a full competency assessment at the program's conclusion. We also require our admissions representatives to pass a compliance test on a semi-annual basis and certify that they understand and comply with our recruiting standards.

Student Admissions and Retention

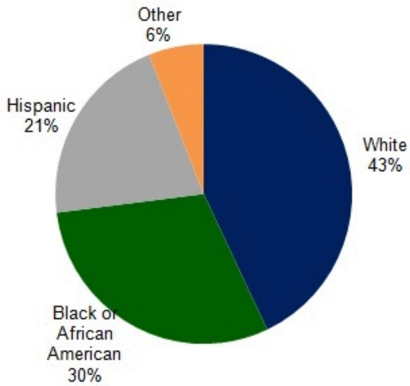
The admissions and entrance standards of each school are designed to identify those students who are best equipped to meet the requirements of their chosen fields of study and successfully complete their programs. In evaluating prospective students, we seek individuals with, among other things, a strong desire to learn, passion for their area of interest and initiative. We believe that a success-oriented student body results in higher retention and placement rates, increased student and employer satisfaction and lower student default rates on government loans. To be qualified for admission to one of our schools, each applicant must have received a high school diploma or a General Education Development certificate. An applicant to our graduate and Doctorate programs is required to have received an undergraduate degree as a condition to admission. Most of our schools interview prospective students to assess their qualifications, their interest in the programs offered by the schools and their commitment to their education. In addition, the curriculum, student services, education costs, available financial resources and student housing options, if applicable, are reviewed during interviews.

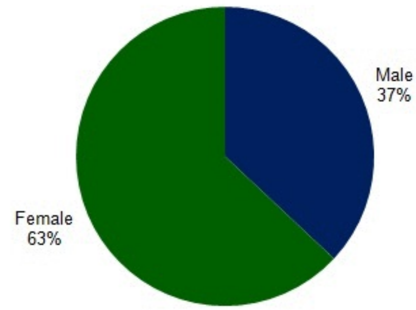
We use a variety of tools designed to assess prospective students, stress the importance of time management and study skills, and ensure that students understand the responsibilities and obligations of funding their education. The Art Institutes, Argosy University and Brown Mackie Colleges use various products to test the reading, writing and math skills of undergraduate students. South University requires satisfactory SAT, ACT, College Board or other placement test scores for undergraduate students. If necessary, based on a student’s test score, most of our schools offer developmental courses or transitional studies which students must pass before they can advance in their programs of study. Each of our schools offers an orientation program that is designed to prepare students to be successful in post-secondary programs. Additionally, we offer academic counseling, tutoring and other services designed to help students succeed in school and continue advancing toward their respective degrees.

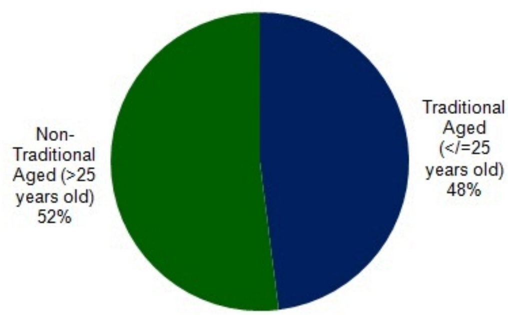
Due to our broad program offerings, our students come from a wide variety of backgrounds. As of October 2013, the estimated average age of a student at all of our schools was approximately 29 years old, and the estimated average age of students at each of our education systems was as follows:

The Art Institutes	25 years old
Argosy University	36 years old
Brown Mackie Colleges	30 years old
South University	33 years old

As of October 2013, the approximate ethnicity, gender and age demographics of our students who supplied such information were as follows:







Our students may fail to finish their programs for a variety of personal, academic or financial reasons. To reduce student withdrawals, each of our schools devotes staff resources to advising students regarding academic and financial matters, part-time employment and, if applicable, housing. Remedial courses are mandated for our undergraduate and graduate students with lower academic skill levels, and tutoring is encouraged for students experiencing academic difficulties. Our net annual persistence rate, which measures the number of students who are enrolled during a fiscal year and either graduate or advance to the next fiscal year over a twelve-month period, for all of our students improved from approximately 60% in fiscal 2013 to 62% in fiscal 2014. The persistence rates for fiscal 2014 and 2013 were determined in accordance with the standards set forth by ACICS to provide a common formula for all our schools regardless of their accreditor. Additionally, we measure new student retention over multiple periods of 90, 180, and 360 days. Our experience indicates that the majority of students who withdraw from school typically do so within their first few academic terms. We therefore track the retention of each cohort of new students 180 days after their initial start as an indication of likelihood to complete their programs. We believe this metric is an important tool for us in measuring student progress toward our graduate goal.

Education Programs

The relationship that each of our schools has with our students' potential employers plays a significant role in the development and adaptation of the school curriculum. Most of our schools have one or more program advisory boards composed of members of the local and regional communities or employers in the fields which we serve. These boards provide valuable input to a school's education department, which allows a school to keep programs current and provide students with the training and skills that employers seek.

Our wide range of academic programs culminates in the awarding of diploma certificates and a variety of degrees. In October of 2013 and 2012, the enrollment by degree for all our schools was as follows:

	October 2013	October 2012
Bachelor's degrees	49%	48%
Associate's degrees	32%	33%
Master's degrees	7%	7%
Diploma and Certificates	7%	6%
Doctorate degrees	5%	6%

The types of degrees and programs we offer vary by each of our schools. The following summarizes the principal academic programs offered at each of our education systems, which correspond to our four business segments, as of October 2013. Not all programs are offered at each school location within an education system.

Table of Contents

The Art Institutes

***The Art Institutes**.* The principal degree programs offered by The Art Institutes are as follows. For internal purposes, we classify the degree programs at The Art Institutes according to four schools or areas of study.

The School of Design

Associate's Degrees
Graphic Design
Interior Design
Graphic & Web Design

Bachelor's Degrees
Advertising
Graphic Design
Graphic & Web Design
Illustration & Design
Industrial Design
Interior Design

The School of Fashion

Associate's Degrees
Fashion Design
Fashion Marketing
Fashion Merchandising

Bachelor's Degrees
Fashion Design
Fashion Marketing
Fashion Merchandising
Fashion & Retail Management

The School of Media Arts

Associate's Degrees
Audio Production
Digital Film-making & Video Production
Photography
Video Production
Web Site Development

Bachelor's Degrees
Audio Production
Digital Film-making & Video Production
Game Art & Design
Media Arts & Animation
Photography
Visual Effects & Motion Graphics

The School of Culinary Arts

Associate's Degrees
Baking and Pastry
Culinary Arts

Bachelor's Degrees
Culinary Management
Hotel & Restaurant Management

Argosy University

Argosy University. The principal degree programs offered by Argosy University are as follows.

College of Arts and Sciences

Associate's Degrees
Business Administration
Criminal Justice
Psychology

Bachelor's Degrees
Business Administration
Criminal Justice
Liberal Arts
Psychology

Colleges of Behavioral Sciences and Clinical Psychology

Master's Degrees
Clinical Mental Health Counseling
Clinical Psychology
Counseling Psychology
Community Counseling
Forensic Psychology
Marriage and Family Therapy
Mental Health Counseling

Doctorate Degrees
Clinical Psychology
Counseling Psychology
Counselor Education and Supervision

College of Health Sciences

Associate's Degrees
Diagnostic Medical Sonography
Veterinary Technology

Master's Degree
Public Health

College of Education

Doctorate Degrees
Educational Leadership
Instructional Leadership
Teaching and Learning

Graduate School of Business and Management

Master's Degrees
Business Administration

Doctorate Degrees
Business Administration
Organizational Leadership

Western State College of Law

Juris Doctor

BROWN MACKIE COLLEGE®

Brown Mackie Colleges. The principal degree programs offered by the Brown Mackie Colleges are as follows.

Healthcare and Wellness

Associate's Degrees
Biomedical Equipment Technology
Healthcare Administration
Medical Assistant
Occupational Therapy Assistant
Pharmacy Technology
Surgical Technology

Bachelor's Degree
Healthcare Management

Nursing

Associate's Degree
Nursing

Early Childhood Education

Associate's Degree
Early Childhood Education

Legal Studies

Associate's Degrees
Criminal Justice
Paralegal

Bachelor's Degree
Criminal Justice

Business & Technology

Associate's Degrees
Accounting
Business
Graphic Design
Information Technology
IT & Network Administration

Bachelor's Degree
Business Administration

Veterinary Technology

Associate's Degree
Veterinary Technology

South University. The principal degree programs offered by South University are as follows.

Legal and Criminal Justice Programs

Associate's Degrees
Criminal Justice
Paralegal Studies

Bachelor's Degrees
Criminal Justice
Legal Studies

Business and Information Technology Programs

Associate's Degrees
Business Administration
Information Technology

Bachelor's Degrees
Business Administration
Healthcare Management
Information Technology

Master's Degrees
Business Administration

College of Health Professions

Associate's Degrees
Allied Health Science
Physical Therapist Assisting

Bachelor's Degrees
Health Science
Psychology

Master's Degree
Clinical Mental Health Counseling

College of Nursing and Public Health

Bachelor's Degree
Nursing

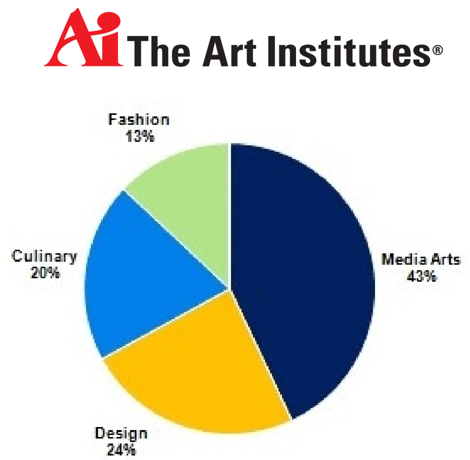
Master's Degree
Nursing

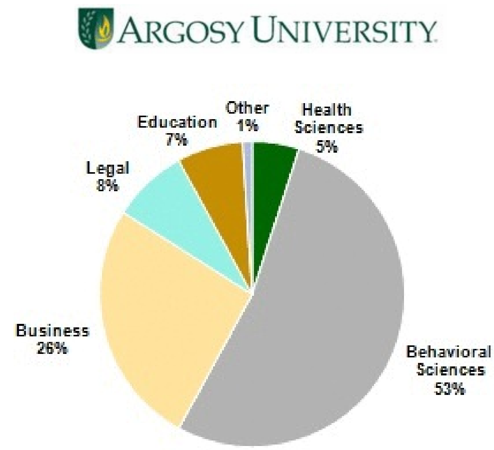
School of Pharmacy

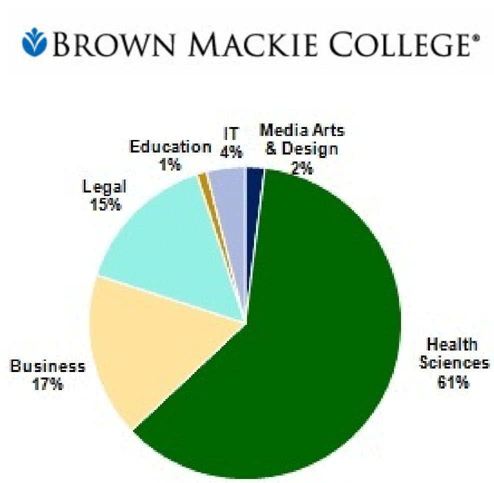
Doctorate Degree
Doctor of Pharmacy

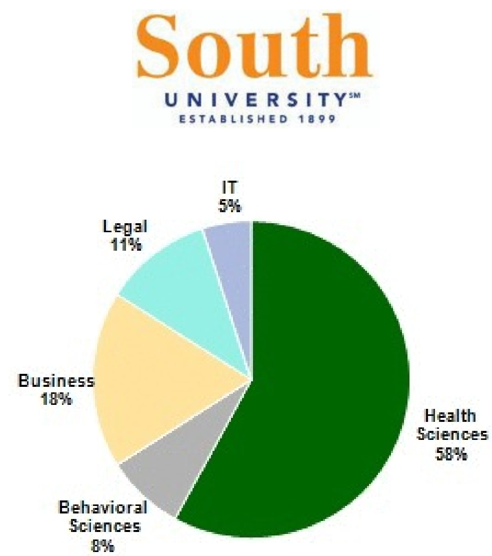
In addition to the programs listed above, we own Ventura Group, which provides courses and materials for post-graduate licensure examinations in the behavioral sciences fields and continuing education courses for K-12 educators and which is included in the Argosy University reporting segment.

The following charts depict the proportion of students pursuing each program of study at each of our four education systems as of October 2013:









Graduate Employment

We measure our success as an educator of students based in part on the ability of our students to find jobs in their chosen fields of employment upon graduation from our schools. Most of our schools provide career development instruction to our students in order to assist the students in developing essential job-search skills. In addition to individualized training in interviewing, networking techniques and resume-writing, most of our schools require students to take a career development course. Additionally, we provide ongoing employment resources to our undergraduate students and recent graduates. Many career services departments also assist current students in finding part-time employment while attending school. Students in certain of our Doctorate programs spend up to a year in a paid internship in their chosen fields.

Each school's career services department plays a role in marketing the school's curriculum to the community in order to produce job opportunities for graduates. Career services advisors educate employers about the caliber of our graduates. These advisors participate in professional organizations, trade shows and community events to keep apprised of industry trends and maintain relationships with key employers. Career services staff visit employer sites to learn more about their operations and better understand their employment needs. As of June 30, 2014, we had approximately 280 full-time employees that maintain contact with prospective employers nationwide.

Accreditation

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

Pursuant to provisions of the Higher Education Act of 1965, as amended ("HEA"), the U.S. Department of Education relies on accrediting agencies to determine whether the academic quality of an institution's educational programs is sufficient to qualify the institution to participate in federal student financial aid programs under Title IV of the HEA ("Title IV programs"). The HEA and its implementing regulations specify certain standards that all recognized accrediting agencies must adopt in connection with their review of post-secondary institutions. All of our U.S. schools are accredited by an institutional accrediting agency recognized by the U.S. Department of Education.

Our institutions are accredited by one of six regional accrediting agencies, which are defined by geographic regions across the U.S., or a national accrediting agency that is not limited by geographic scope. An institution must have a substantial presence in a region in order to qualify for accreditation by a regional accrediting agency. As of June 30, 2014, we had 18 institutions accredited by a regional or national accrediting agency recognized by the U.S. Department of Education. All Argosy University and South University schools are accredited by a single accreditor and have campuses located across the United States. Accrediting agencies do not limit the scope of accreditation to specific subject matters offered by an institution. For example, The Art Institute of California campuses are part of Argosy University; The Art Institute of Charlotte, The Art Institute of Raleigh-Durham, The Art Institute of Dallas, and The Art Institute of Fort Worth are campuses of South University; and a number of Brown Mackie Colleges are branches of The Art Institute of Phoenix.

At June 30, 2014, we had the following accredited institutions and branch campuses:

Institution and Branch Campuses	Accreditor [1]	Expiration of Accreditation [2]
The Art Institute of Atlanta *The Art Institute of Atlanta-Decatur, The Art Institute of Charleston, The Art Institute of Tennessee - Nashville, The Art Institute of Washington, The Art Institute of Washington-Dulles and The Art Institute of Virginia Beach*	SACSCOC	12/31/2020
The Art Institute of Colorado	HLC	12/31/2023
The Art Institute of Fort Lauderdale	ACICS	12/31/2014
The Art Institute of Houston *The Art Institute of Austin, The Art Institute of Houston North and The Art Institute of San Antonio*	SACSCOC	12/31/2015
The Art Institutes International Minnesota	ACICS	12/31/2015
The Art Institute of New York City	ACICS	12/31/2014
The Art Institute of Philadelphia	MSCHE	12/31/2017
The Art Institute of Phoenix *The Art Institute of Indianapolis, The Art Institute of Las Vegas, The Art Institute of Salt Lake City, The Art Institute of St. Louis, The Art Institute of Tucson, The Art Institute of Vancouver, The Art Institute of Wisconsin, The Art Institutes International Kansas City, Brown Mackie College - Akron, Brown Mackie College - Albuquerque, Brown Mackie College - Atlanta, Brown Mackie College - Birmingham, Brown Mackie College - Boise, Brown Mackie College - Cincinnati, Brown Mackie College - Dallas, Brown Mackie College - Findlay, Brown Mackie College - Fort Wayne, Brown Mackie College - Greenville, Brown Mackie College - Hopkinsville, Brown Mackie College - Indianapolis, Brown Mackie College - Louisville, Brown Mackie College - Merrillville, Brown Mackie College - Miami, Brown Mackie College - Michigan City, Brown Mackie College - North Canton, Brown Mackie College - Northern Kentucky, Brown Mackie College - Phoenix, Brown Mackie College - Quad Cities, Brown Mackie College - San Antonio, Brown Mackie College - South Bend, Brown Mackie College - St. Louis, Brown Mackie College - Tucson and Brown Mackie College - Tulsa*	ACICS	12/31/2017
The Art Institute of Pittsburgh	MSCHE	12/31/2023
The Art Institute of Portland	NWCCU	12/31/2016
The Art Institute of Seattle	NWCCU	12/31/2016
The Art Institute of York-Pennsylvania	ACICS	12/31/2014
The Illinois Institute of Art - Chicago *The Art Institute of Michigan, The Art Institute of Michigan - Troy, The Art Institute of Ohio - Cincinnati, The Illinois Institute of Art - Schaumburg and The Illinois Institute of Art - Tinley Park*	HLC	12/31/2019
Miami International University of Art & Design *The Art Institute of Tampa and The Art Institute of Jacksonville*	SACSCOC	12/31/2022
The New England Institute of Art	NEASC	12/31/2019
South University[3] *South University - Austin, South University - Cleveland, South University - Columbia, South University - Montgomery, South University - Novi, South University - Richmond, South University - Savannah, South University - Tampa, South University - West Palm Beach, South University - Virginia Beach, South University - Highpoint, The Art Institute of Charlotte, The Art Institute of Dallas, The Art Institute of Fort Worth and The Art Institute of Raleigh-Durham*	SACSCOC	12/31/2014 [4]

Institution and Branch Campuses	Accreditor (1)	Expiration of Accreditation (2)
Argosy University(3)	WASC	12/31/2016
Argosy University - Atlanta, Argosy University - Chicago, Argosy University - Dallas, Argosy University - Denver, Argosy University - Hawaii, Argosy University - Inland Empire, Argosy University - Los Angeles, Argosy University - Nashville, Argosy University - Orange County, Argosy University - Phoenix, Argosy University - Salt Lake City, Argosy University - San Diego, Argosy University - San Francisco, Argosy University - Sarasota, Argosy University - Schaumburg, Argosy University - Seattle, Argosy University - Tampa, Argosy University - Twin Cities, Argosy University - Washington, Western State College of Law, The Art Institute of California - Los Angeles, The Art Institute of California - Hollywood, The Art Institute of California - Inland Empire, The Art Institute of California - Orange County, The Art Institute of California - San Diego, The Art Institute of California - San Francisco, The Art Institute of California - Sacramento and The Art Institute of California - Silicon Valley		
Brown Mackie College - Salina	HLC	12/31/2016
Brown Mackie College - Kansas City and Brown Mackie College - Oklahoma City		

(1) All accrediting bodies are regional accrediting agencies with the exception of ACICS, which is a national accrediting agency. Abbreviations used in the table are as follows:

ACICS - Accrediting Council of Independent Colleges and Schools

HLC - Higher Learning Commission of the North Central Association

MSCHE - Middle States Commission on Higher Education

NEASC - New England Association of Schools and Colleges

NWCCU - Northwest Commission on Colleges and Universities

SACSCOC - Southern Association of Colleges and Schools Commission on Colleges

WASC - Western Association of Schools and Colleges Senior College and University Commission

(2) Accreditation as of June 30, 2014.

(3) This institution is not a physical location independent of the branch campuses listed below.

(4) Accreditation expiration date extended to December 31, 2024 subsequent to June 30, 2014.

Our regionally accredited institutions are overseen by boards of trustees that include a majority of independent members who review academic integrity and autonomy of the institutions. These governing boards have broad oversight over the schools' programs and operations, set the strategic direction for the institutions, play an active role in policy-making, and review financial resources of their institutions to ensure they are able to provide a sound educational program. In furtherance of that mission, each board of trustees develops policies appropriate to the needs of the institution and works closely with their respective administrations to, among other things, establish a climate for articulating and promoting the educational vision of the institutions.

In addition to the institutional accreditations described above, a number of our institutions have programmatic or specialized accreditation for particular educational programs. As of August 31, 2014, 23 programmatic or specialized accrediting bodies collectively regulated 278 programs offered at our school locations. For example, 19 Art Institutes offer interior design programs that have programmatic accreditation by the Council for Interior Design Accreditation, and 20 Art Institutes offer culinary programs accredited by the American Culinary Federation. Ten Argosy University locations have received accreditation by the American Psychological Association ("APA") for their Doctor of Psychology programs, and six Argosy University locations are accredited by the Council for Accreditation of Counseling and Related Educational Programs. Four of our medical assisting programs (three at South University and one at Argosy University) are accredited by the Commission on Accreditation of Allied Health Education Programs. While these programmatic accreditations are not relied upon for our schools to obtain and maintain certification to participate in Title IV programs, they are commonly relied upon in the relevant professions as indicators of the quality of the academic program, and as such, assist graduates to practice or otherwise secure appropriate employment in their chosen fields.

Accrediting agencies monitor each educational institution’s performance across a broad range of areas. Monitoring is generally performed through annual self-reporting and through the conduct of periodic site visits by representatives of the accrediting agency and qualified persons from peer institutions. In the event an accrediting agency determines that a school's performance in one or more areas falls below certain parameters, the accrediting agency may require the school to supply it with supplemental reports on the accrediting agency's specific areas of concern until that school meets the accrediting agency's performance guideline or standard.

ACICS Student Achievement Standards. ACICS, which is the institutional accrediting agency for 38 Art Institutes and Brown Mackie Colleges, has created "benchmark" and "compliance" standards to quantitatively measure success in student retention, graduate placement and licensure passage rates for campus locations it accredits along with programs offered by these campuses. The benchmark standards are designed to encourage campuses and programs whose student achievement is below average to improve their performance in order to avoid falling out of compliance. Campuses and programs whose rates fall below the benchmarks must implement an improvement plan and fulfill certain reporting requirements. The compliance standards are intended to ensure that a substantial majority of students are retained, pass licensure exams where applicable, and find employment related to their fields. Under ACICS' current regulations, campuses and programs whose rates fall below the compliance standard must come into compliance within the two years after receiving notice from ACICS or its grant of accreditation or approval to offer a program may be withdrawn. A campus that fails to achieve the compliance standard for retention or placement rate must seek a prior approval or a waiver to submit an application for approval of a new program. ACICS is currently considering revising the regulations to, among other things, use an average of multiple years beginning with the 2013 results to determine the benchmark and compliance results and impose different consequences for failing to meet the compliance standard.

The ACICS standards measure outcomes for students attending, graduating and/or pursuing licensure from a campus or program during the reporting period beginning each July 1 and ending the following June 30, provided that students who re-enroll and graduates who find employment by November 1 are included for purposes of calculating a campus's or program's retention and placement rates, respectively, as of June 30. Licensure pass rates are measured in March, allowing graduates nine months to schedule and receive licensure from the appropriate testing agency. The current retention, placement and licensure benchmark and compliance standards are 70% and 60%, respectively, except for academic programs with a length in excess of one year, for which the benchmark retention standard is 65%. ACICS may grant waivers for failure to satisfy the minimum retention or graduate placement standard based on specifically enumerated criteria.

Based on preliminary projections, we believe that only one program which did not meet the 2012 compliance standards will also not meet the compliance standards as of June 30, 2014. We plan to teach-out the remaining students in this program in the event that this program does not meet the compliance standard as of June 30, 2014, which will not have a material impact on our results of operations. Based on preliminary projections, we believe that one campus location and 27 programs offered by ACICS-accredited campuses which did not meet the 2013 compliance standard may also not meet the fiscal 2014 compliance standard for retention or graduate placement before the consideration of waivers by ACICS. As of June 30, 2014, approximately 2,200 students attended the campus or programs which we project may fail to meet the compliance standard for a second year. In the event that this campus and these programs do not meet the compliance standard as of June 30, 2014 and 2015 and ACICS does not revise its regulation to provide relief, it would have a material adverse effect on our enrollments, revenues, results of operations and cash flows.

Similarly, based on preliminary projections, we believe that eight ACICS-accredited campuses and 169 programs which previously met the minimum compliance standard may not meet the fiscal 2014 compliance standard for retention or graduate placement before the consideration of waivers by ACICS. These programs and campus will have at least two additional years to meet the minimum compliance standard after receipt of notice from ACICS in the event that they fail to meet the fiscal 2014 compliance standard, subject to any additional modification of the student achievement standards by ACICS. We are implementing additional monitoring at all campuses and for all programs projected to fail to meet the minimum compliance standard in order to address the deficiencies in meeting the minimum retention or placement rates, as applicable.

Other Accreditation Matters. An accrediting agency may order an institution to show cause why its accreditation should not be revoked or conditioned if the accrediting agency receives information leading it to question whether the institution satisfies the requirements of continued accreditation. An institution found not to be in compliance with required standards may have its accreditation revoked or withdrawn, or it may be placed on probation to more closely monitor its compliance with accrediting requirements. Accrediting agencies have issued the following sanctions for our schools or programs:

- On July 9, 2013, The Art Institute of Colorado received a ten year reaffirmation of accreditation from HLC and was placed "on notice," which is the lowest level sanction, until June 27, 2015 due to a failure to properly monitor student effectiveness, the lack of an effective institutional research function, faculty workload and development concerns, and student retention issues. The Art Institute of Colorado has developed a plan to address the concerns expressed by HLC. HLC will review the institution's response to the issues raised in the reaccreditation report at a board meeting to be held in February 2015.

- Ten Surgical Technology programs at Brown Mackie Colleges are required to provide supplemental reports to their programmatic accreditor, the Accrediting Bureau of Health Education Schools ("ABHES"), due to student retention, credentialing and/or placement issues. Additionally, the Surgical Technology program offered by Brown Mackie College - Atlanta was placed on show cause status by ABHES due to concerns regarding establishment of clinical externship sites and/or internal clinical experiences, and the Surgical Technology program offered by Brown Mackie College - Findlay has been recommended for expiration of accreditation by the Accreditation Review Council on Education in Surgical Technology and Surgical Assisting ("ARC/STSA"). Based on an analysis of program size and current market needs, we decided to teach-out these two programs, which will not materially impact our results of operations due to the small size of each program.
- The Physical Therapist Assistant program offered by Brown Mackie College - South Bend was placed on show cause status by the Commission on Accreditation in Physical Therapy Education due to its failure to maintain a minimum three year graduation rate.
- The Interior Design program offered by The Art Institute of Fort Lauderdale, the Veterinary Technology program offered by Brown Mackie College - Louisville, and the Physical Therapist Assistant program offered by the Montgomery campus of South University have been placed on probation by their respective programmatic accreditors.

Student Financial Assistance

Most of the students at our schools based in the United States rely, at least in part, on financial assistance to pay for the cost of their education. In the United States, the largest sources of such support are the federal student aid programs under Title IV of the HEA. Additional sources of funds include other federal grant programs, state grant and loan programs, private loan programs and institutional grants and scholarships. To provide students access to financial assistance resources available through Title IV programs, a school must be (i) authorized to offer its programs of instruction by the relevant agency of the states in which it is physically located and comply with applicable state requirements regarding fully-online programs, (ii) institutionally accredited by an agency recognized by the U.S. Department of Education, and (iii) certified as an eligible institution by the U.S. Department of Education. In addition, the school must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students and remain in compliance generally with the Title IV program regulations. Most of the U.S. Department of Education's requirements, such as the 90/10 Rule and the cohort default rate test, which are described in greater detail below, are applied on an institutional basis, with an institution defined as a main campus and its additional locations, if any. As of June 30, 2014, 18 of our 110 primary locations were recognized by the U.S. Department of Education as main campuses.

As in the United States, there are certain risks associated with operating post-secondary institutions in Canada, including, among other risks:

- if our schools fail to comply with extensive regulations, we could be subject to financial penalties, restrictions on our operations or loss of external financial aid funding for our students;
- the provinces or national government may change the law or reduce funding for student financial aid programs, which could harm our student population and revenue;
- if our schools do not maintain their approvals, they may not operate or participate in federal student financial aid programs; and
- government and regulatory agencies may conduct compliance reviews, bring claims or initiate litigation against us.

While most states in the United States support public colleges and universities primarily through direct state subsidies, the U.S. federal government provides a substantial part of its support for post-secondary education in the form of grants and loans to students who can use this support at any institution that has been certified as eligible by the U.S. Department of Education. Students at our U.S. schools receive loans, grants and work-study aid to fund their education under several Title IV programs, of which the two largest are the William D. Ford Federal Direct Loan (“Direct Loan”) program and the Pell Grant (“Pell”) program. Most of our U.S. schools also participate in the federal Supplemental Educational Opportunity Grant (“FSEOG”) program, the federal Perkins Loan (“Perkins”) program, the federal Work-Study program and the Iraq and Afghanistan Service Grant program.

During fiscal 2014 and 2013, gross receipts from the financial aid sources for attending our post-secondary institutions were as follows (*dollars in millions*):

	Fiscal 2014			Fiscal 2013 (5)		
	Gross Receipts (1) (3)	% of Gross Receipts	% of Net Revenues (4)	Gross Receipts (1) (3)	% of Gross Receipts	% of Net Revenues (4)
Federal Title IV Aid:						
Stafford Loans	$ 1,211.3	49.0%	53.3%	$ 1,293.1	48.0%	51.8%
Pell Grants	380.9	15.4%	16.8%	391.7	14.5%	15.7%
PLUS Loans	149.5	6.1%	6.6%	205.1	7.6%	8.2%
Grad Plus Loans	52.2	2.1%	2.3%	53.2	2.0%	2.1%
Other Title IV Aid (2)	20.6	0.9%	0.9%	22.9	0.8%	0.9%
Total Federal Title IV Aid	$ 1,814.5	73.5%	79.9%	$ 1,966.0	72.9%	78.7%
Military	195.1	7.9%	8.6%	194.9	7.2%	7.8%
Private Loans	42.9	1.7%	1.9%	58.6	2.2%	2.3%
State Grants	42.1	1.7%	1.9%	44.5	1.7%	1.8%
Total Other Aid	280.1	11.3%	12.4%	298.0	11.1%	11.9%
Cash Payments	375.8	15.2%	16.5%	431.4	16.0%	17.3%
Total Gross Receipts (3) (4)	$ 2,470.4	100.0%	108.8%	$ 2,695.4	100.0%	107.9%
Net Revenues (4)			$ 2,272.7			$ 2,498.6

(1) Gross receipts include paid and unpaid aid awarded, which is net of the return to the federal student financial aid programs of all unearned funds from students who withdraw from a program of study, as well as cash payments. A portion of an undergraduate student's award may include subsidized or unsubsidized Direct Loans depending upon his or her financial need.

(2) Primarily consists of FSEOG Awards and Perkins loans.

(3) Total gross receipts include stipends, or financing received by students in excess of the tuition and fees and other institutional charges that they pay to our schools, which we receive from financing sources on behalf of students. Stipends are generally used by students to fund living expenses while attending school. Total stipends paid to students during fiscal 2014 and 2013 were $309.5 million and $369.4 million, respectively. Aid awarded from the Federal Work Study program is excluded from total gross receipts along with institutional aid, employee reimbursement of tuition payments and institutional scholarships.

(4) Total gross receipts exceed net revenues in each of the fiscal years presented primarily because of stipends received on behalf of students and the effect of timing differences between cash-basis and accrual-basis accounting.

(5) Certain amounts have been updated from the prior year presentation due to refunds and other revisions which occurred after the end of fiscal 2013.

Direct Loans. The Direct Loan program includes Direct Stafford loans, both subsidized and unsubsidized, Parent Loan for Undergraduate Students (“PLUS”) loans, which are made available to parents of undergraduate students classified as dependents, and Grad PLUS loans, which are made available to graduate and professional students. Prior to July 1, 2010, Stafford and PLUS program loans were also made available to students through the Federal Family Education Loan (“FFEL”) program which was administered and funded by private lenders. The Direct Loan program is administered and funded by the U.S. Department of Education.

Under the Direct Loan program, an undergraduate student may borrow up to $5,500 for the first academic year, $6,500 for the second academic year and, in certain educational programs, $7,500 for each of the third and fourth academic years, $2,000 of which, on an annual basis, is an unsubsidized loan. Students who are classified as independent can obtain up to an additional $4,000 unsubsidized loan for each of the first and second academic years and, depending upon the educational program, an additional $5,000 unsubsidized loan for each of the third and fourth academic years. Students enrolled in programs higher than a bachelor-level program can borrow up to $20,500 per academic year. Students enrolled in certain graduate-level health professions can receive an additional $12,500 per academic year. PLUS program loans may be obtained by parents of a dependent student in an amount not to exceed the difference between the total cost of that student's education (including allowable educational expenses) and other aid to which that student is entitled. Grad PLUS program loans may be obtained by eligible students in graduate programs in an amount not to exceed the difference between the total cost of that student's education (including allowable educational expenses) and other aid to which that student is entitled.

Pell. Pell grants are the primary component of Title IV programs under which the U.S. Department of Education makes grants to undergraduate students who demonstrate financial need. Every eligible student is entitled to receive a Pell grant; there is no institutional allocation or limit. The HEA provides for an automatic increase to the appropriated maximum Pell Grant award in 2014 - 15 to $5,730. Effective from July 1, 2009 through June 30, 2011, certain students who attended school for more than two academic years within an award year were in some cases eligible for additional Pell grant awards. Effective July 1, 2012, the number of full-time semesters that a student is eligible to receive a Pell grant decreased from 18 to 12 and the number of full-time academic quarters decreased from 27 to 18. Additionally, the income threshold necessary for expected family contribution automatically set at zero decreased from $32,000 to $24,000. These changes may result in the inability of some of our students to continue to receive Pell grants, depending on their prior receipt of Pell grants, or a decrease in the amount of Pell grants that they are eligible to receive. The maximum available to an eligible student under the Pell grant program depends on student need and other factors.

FSEOG. FSEOG awards are designed to supplement Pell grants for the neediest undergraduate students. FSEOG grants at our schools generally range in amount from $300 to $1,200 per year. However, the availability of FSEOG awards is limited by the amount of those funds allocated by the U.S. Department of Education to an institution under a formula that takes into account the size of the institution, its costs and the income levels of its students. We are required to make a 25% matching contribution for all FSEOG program funds disbursed. Resources for this institutional contribution may include institutional grants and scholarships and, in certain U.S. states, portions of state grants and scholarships.

Perkins. Eligible undergraduate students may borrow up to $5,500 under the Perkins program during each academic year, with an aggregate maximum of $27,500 for students with at least two years of study. Eligible graduate students may borrow up to $8,000 in Perkins loans each academic year, with an aggregate maximum of $60,000. Perkins loans have a 5% interest rate and repayment is delayed until nine months after a student ceases enrollment as at least a half-time student. Perkins loans are made available to those students who demonstrate the greatest financial need. Perkins loans are made from a revolving account. Congress has not appropriated any new federal capital contributions to the Perkins program in several fiscal years. When Congress last funded the program, 75% of the new funding was contributed by the U.S. Department of Education and the remainder by the applicable school. Each school collects payments on Perkins loans from its former students and re-lends those funds to currently enrolled students. Collection and disbursement of Perkins loans is the responsibility of each participating institution. During fiscal 2014, payments from former students to the program were approximately $3.2 million. We were not required to make any matching contributions in fiscal 2014.

Federal Work-Study. Under the Federal Work-Study program, federal funds are made available to pay up to 75% of the cost of part-time employment of eligible students, based on their financial need, to perform work for the institution or for off-campus public or non-profit organizations. Most of our schools participate in the Federal Work-Study program. In order to participate in the program, each year a school must have at least 7% of the school's Federal Work-Study program allocation paid to students performing community service work and at least one student in a literacy job. In fiscal 2014, 17 of our 18 institutions met this requirement.

Legislative and Regulatory Action. Political and budgetary concerns can significantly affect Title IV programs. Congress generally reauthorizes the HEA approximately every six years. In August 2008, the Higher Education Opportunity Act (“HEOA”) reauthorized the HEA through at least September 30, 2014. The HEOA, among other things, revised the 90/10 Rule, as described in more detail under “Federal Oversight of Title IV Programs - The '90/10 Rule'", revised the calculation of an institution's cohort default rate, required additional disclosures and certifications with respect to non-Title IV private loans and prohibited certain activities or relations between lenders and schools to discourage preferential treatment of lenders based on factors not in students' best interests. In addition, Congress determines federal appropriations for Title IV programs on an annual basis. Congress also can make changes in the laws affecting Title IV programs in those annual appropriations bills and in other laws it enacts between HEA reauthorizations.

The U.S. Senate Committee on Health, Education, Labor and Pensions (the “HELP Committee”) held a series of hearings on the proprietary education sector during 2010 and 2011 relating to student recruiting, accreditation matters, student debt, student success and outcomes, and other matters. On July 30, 2012, the majority staff of the HELP Committee released a report, "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." While stating that proprietary colleges and universities have an important role to play in higher education and should be well-equipped to meet the needs of non-traditional students who now constitute the majority of the postsecondary educational population, the report was highly critical of these institutions. The report contended that proprietary institutions have a high cost of attendance, engage in aggressive and deceptive recruiting, have high drop-out rates, provide insufficient student support services, and are responsible for high levels of student debt and loan defaults, among other things. The report called for increased disclosure of information about student outcomes at proprietary colleges and universities, prohibiting institutions from using federal financial aid funding to market, advertise and recruit, amending the 90/10 Rule to prohibit these institutions from receiving more than 85% of their revenues from federal funds, including veterans benefits and Department of Defense tuition assistance, prohibiting the use of mandatory binding arbitration clauses in enrollment agreements, and other measures ostensibly to protect students and taxpayers. The report may be used for future legislative proposals in Congress in connection with a reauthorization of the HEA or other proposed legislation. The report could also lead to further investigations of proprietary schools and additional regulations promulgated by the U.S. Department of Education.

Effective July 1, 2011, the U.S. Department of Education adopted new regulations pertaining to certain aspects of the administration of the Title IV programs, including state authorization; disclosure of information related to gainful employment; compensation for persons and entities engaged in certain aspects of recruiting, admissions and student financial aid; determination of attendance; the definition of what constitutes a substantial misrepresentation; and the definition of credit hours. In addition to the rules, the U.S. Department of Education has issued several “Dear Colleague Letters” to provide sub-regulatory guidance on certain areas of the final regulations. The guidance is provided to assist institutions with understanding the regulations in these areas. Certain of these regulations have had or will have a significant impact on our business, including the incentive compensation regulation which eliminated a prior safe harbor for adjusting the compensation of admissions representatives, a rule requiring that programs be considered a clock hour program for purposes of Title IV program funding when measuring student progress in clock hours is a requirement of receiving federal or state approval to offer a program, specific federal requirements addressing whether a state's authorization of an educational institution is sufficient for an institution to participate in Title IV programs, and a new definition of what constitutes a substantial misrepresentation.

New Negotiated Rulemaking

The U.S. Department of Education published a Notice of Proposed Rules in the Federal Register on March 25, 2014 which requested comments on the adoption of three annual metrics for measuring whether programs offered by proprietary institutions such as ours lead to “gainful employment” in a recognized occupation. Under the HEA, with the exception of certain liberal arts degree programs, proprietary schools are eligible to participate in Title IV programs only with respect to educational programs that prepare a student for “gainful employment in a recognized occupation.” The U.S. Department of Education previously adopted regulations that were scheduled to become effective as of July 1, 2012 and that would have for the first time set forth standards for measuring whether programs lead to gainful employment in a recognized occupation. These regulations, which were vacated by a federal court decision, would have established three annual metrics related to student loan borrowing which would have imposed certain restrictions on programs up to and including the prohibition on participation in Title IV financial aid programs in the event that the metrics were not satisfied over a period of time. In response, the new gainful employment regulation proposed by the U.S. Department of Education would cause each educational program covered by the rule to fail if the student-loan debt payments of graduates of the program exceed 12 percent of their annual incomes and 30 percent of their discretionary incomes, the same ratios as in the original rule vacated by the federal court decision. Programs whose graduates have debt-to-annual-income ratios of 8 percent to 12 percent or debt-to-discretionary-income ratios of 20 percent to 30 percent would fall in a “zone”, and the institution would have to warn students that they might become ineligible for aid. Programs that fail both debt-to-annual-income tests twice in any three-year period or are in the zone or failing for four consecutive years would be ineligible for federal student aid. In response to the 2012 Court ruling, the proposed gainful employment regulation uses programmatic cohort default rates rather than loan-repayment rates as an additional test. Programs whose borrower cohort default rates equal or exceed 30 percent for three consecutive years would be ineligible for federal student aid. The comment period ended May 27, 2014. A final rule must be published in the Federal Register by November 1, 2014 to be effective as of July 1, 2015. The U.S. Department of Education estimated that approximately 1,000,000 students, or approximately 50% of the total number of students enrolled in proprietary post-secondary institutions, are enrolled in programs that would either fail or fall into the zone for improvement under the proposed gainful employment metrics. If the final gainful employment rule is substantially similar to the proposed rule published for comment, it would have a material adverse effect on our business.

In addition, the HEA is scheduled for reauthorization in 2014 and the reauthorization process may result in significant changes to the post-secondary education industry. Among other things, there have been proposals in Congress to amend the 90/10 Rule in connection with the reauthorization of the HEA to prohibit proprietary institutions from receiving more than 85 percent of their revenues from federal funds, including veterans benefits and U.S. Department of Defense tuition assistance. Another proposal would prohibit federal education dollars from being used for advertising and marketing purposes. Any revisions to the HEA, the regulations adopted by the U.S. Department of Education, or the 90/10 Rule could have a material adverse impact on our business. The HEA includes an automatic one year extension through September 30, 2015 in the event that a reauthorization bill is not passed by Congress and signed by President Obama.

In January 2014, the U.S. Department of Education commenced negotiated rulemaking sessions to implement changes to the Clery Act required by the Violence Against Women Act which, among other items, requires institutions to compile additional statistics for certain crimes reported to campus security authorities or local police agencies, and include such information in its annual security report, along with certain policies, procedures, and programs pertaining to such crimes. A Notice of Proposed Rulemaking was published in the Federal Register on June 20, 2014 and comments were due on or before July 21, 2014. Since consensus was reached on the changes to the Clery Act, a final regulation is expected no later than November 1, 2014 with an effective date of July 1, 2015. The U.S. Department of Education has advised institutions that they are expected to make a good faith effort to comply with changes made to the Clery Act with the enactment of Violence Against Women Act when they update their Clery Report no later than October 1, 2014.

Additionally, another series of negotiated rulemaking sessions to address program integrity and improvement issues was held in February, March, April and May 2014 to address cash management of Title IV funds including use of debit cards and handling of Title IV credit balances; state authorization for programs offered through distance or correspondence education; state authorization for non-U.S. locations of educational institutions; clock to credit hour conversion; the definition of "adverse credit" for borrowers under the Federal Direct PLUS Loan Program; and the application of repeat coursework provisions to graduate and undergraduate programs. During the negotiated rulemaking sessions, the U.S. Department of Education indicated that it plans to issue two Notices of Proposed Rulemaking, one which will include proposed PLUS loan adverse credit history regulations and the second will address the remaining proposed regulations. On August 8, 2014, a Notice of Proposed Rulemaking on PLUS loan adverse credit history regulation was published in the Federal Register; comments were due on or before September 8, 2014. The U.S. Department of Education has yet to publish a Notice of Proposed Rulemaking on the remaining regulations.

The U.S. Department of Education has also conducted "listening tours" to solicit public feedback concerning President Obama's call for a national college ratings system that would promote accountability, affordability, and meaningful outcomes. The draft college ratings system was expected to be released in Spring 2014 for comment, but it was delayed until Fall 2014 with a planned roll-out before the 2015-2016 school year. The President also has requested legislation that would tie federal student aid to college performance with an implementation goal of 2018.

Other Financial Assistance Sources

Students at several of our U.S. schools participate in state aid programs. In addition, certain students at some of our U.S. schools receive financial aid provided by the U.S. Department of Veterans Affairs, the U.S. Department of the Interior (Bureau of Indian Affairs) and the Rehabilitative Services Administration of the U.S. Department of Education (vocational rehabilitation funding). Effective August 1, 2009, the Post 9/11 Veterans Educational Assistance Act of 2008 provided additional educational funding to eligible veterans who served in the U.S. military. During fiscal 2014, students attending our schools received approximately $195 million of financial aid from military sources of which the significant majority was from the U.S. Department of Veteran Affairs and a lesser amount was from the U.S. Department of Defense. Recently, some members of Congress have proposed substantially decreasing the amount of education benefits available to veterans, which could have a material adverse effect on our business, results of operations and ability to comply with the 90/10 Rule. Our schools also provide institutional grants and scholarships to qualified students.

In fiscal 2014, institutional scholarships had a value equal to approximately 6% of our net revenues as compared to approximately 4% of our net revenues in fiscal 2013. We have relationships with several lending institutions that provide private loans to students attending our schools who meet their underwriting criteria. Private loans facilitate funding which students can use to pay a portion of their tuition and fees that they are unable to pay through personal resources or government-backed loan programs. Such loans are without recourse to us or our schools. Revenues derived indirectly from private loans to students at our schools represented approximately 1.9% and 2.3% of our net revenues in fiscal 2014 and 2013, respectively. Approximately 90% of the private loans in fiscal 2014 were offered and serviced by SLM Corporation. During the last several years, adverse market conditions for consumer student loans resulted in providers of private loans reducing the attractiveness and/or decreasing the availability of private loans to post-secondary students, including students with low credit scores who would not otherwise be eligible for credit-based private loans.

Due to the relative lack of availability of private lending sources, we have increased the extension of credit to our students for periods of up to 42 months beyond graduation, which has resulted in higher bad debt expense as a percentage of receipts in fiscal 2014 compared to prior periods. The total amount of gross receivables that extend beyond twelve months approximated $61.5 million at June 30, 2014 and $52.2 million at June 30, 2013, which excludes amounts outstanding under a program that commenced in the fourth quarter of fiscal 2013 under which we purchase loans awarded and disbursed to our students from a private lender.

Federal Oversight of Title IV Programs

Our U.S. schools are subject to audits or program compliance reviews by various external agencies, including the U.S. Department of Education, its Office of Inspector General and state and accrediting agencies. The HEA and its implementing regulations also require that an institution's administration of Title IV program funds be audited annually by an independent accounting firm. If the U.S. Department of Education or another regulatory agency determines that an institution has improperly disbursed Title IV or state program funds or violated a provision of the HEA or state law or their implementing regulations, the affected institution may be required to repay such funds to the U.S. Department of Education or the appropriate state agency or lender and may be assessed an administrative fine and be subject to other sanctions. Although we endeavor to comply with all federal and state laws and implementing regulations, we cannot guarantee that our interpretation of the relevant rules will be upheld by the U.S. Department of Education or other agencies, or upon judicial review.

Our institutions are required to seek recertifications periodically from the U.S. Department of Education in order to participate in Title IV programs. All of our institutions are provisionally certified. The current provisional certifications of our institutions expire as follows: nine institutions expire in fiscal 2015, five of which are currently under review; four institutions expire in fiscal 2016; and five institutions expire in fiscal 2017. While provisional certification does not by itself limit an institution's access to Title IV program funds, it does subject our institutions to closer review by the U.S. Department of Education and possible summary adverse action if one of our institutions commits a material violation of Title IV program requirements. Moreover, institutions on provisional certification are required to obtain from the U.S. Department of Education prior approval of new additional locations and new programs before disbursing Title IV funds to students attending those locations and new programs.

Four of our 18 institutions were the subject of U.S. Department of Education program reviews in each of fiscal 2014 and 2013. We received final determination letters from the U.S. Department of Education for two program reviews in fiscal 2014, and have not received a final determination letter for three of the four program reviews performed in fiscal 2014, two program reviews performed in fiscal 2013 and two program reviews performed in fiscal 2012. Of the seven program reviews for which we have not received a final determination letter, we have responded to an initial report from the U.S. Department of Education for five of the program reviews, received an initial report for one program review in September 2014 and have not received an initial report for one program review. One of the initial reports we received in September 2014 requires the reconstruction of fiscal 2011 attendance records for the fully-online programs offered by one of our institutions and a related calculation of amounts required to be returned to the U.S. Department of Education under Title IV programs due to student withdrawals. The initial report also cites impaired administrative capabilities concerning attendance policies. The U.S. Department of Education has informed us that it will not act on our application to renew the provisional certification or approve new programs for the institution until we resolve the issues raised in the initial report. We are currently assessing the findings set forth in the report. A determination that one of our institutions is required to refund a material amount of Title IV funds to the U.S. Department of Education, or loses or is limited in its access to, federal student financial aid funds due to a failure to demonstrate administrative capability or to comply with other requirements of Title IV programs, would have a material adverse effect on our enrollments, revenue, results of operations and cash flows. We do not currently have any program reviews scheduled for fiscal 2015.

On May 24, 2013, the Company received a subpoena from the Office of Inspector General of the U.S. Department of Education requesting policies and procedures related to Argosy University's attendance, withdrawal and return to Title IV policies and detailed information on a number of students who enrolled in Argosy University's Bachelor's of Psychology degree program. The Company plans to cooperate with the OIG in connection with its investigation. However, we cannot predict the eventual scope, duration or outcome of the investigation at this time.

If the U.S. Department of Education is dissatisfied with an institution’s administration of Title IV programs, it can transfer, without prior notice or judicial review, the institution from the advance system of receiving Title IV program funds to a cash monitoring or reimbursement method of payment, under which a school may have to advance its own funds to students and provide documentation to the U.S. Department of Education that the funds were properly disbursed prior to receiving reimbursement from Title IV programs. Each of our institutions disburses Title IV program funds under Level 1 heightened cash monitoring due to our failure to satisfy the U.S. Department of Education’s financial responsibility standards.

Violations or alleged violations of Title IV program requirements also could subject us to other civil and criminal proceedings and sanctions, suits under the federal False Claims Act or state False Claims Acts, limitations on our operations and ability to open new locations, or administrative proceedings to impose fines or limit, suspend or terminate our eligibility for participation in Title IV programs. The U.S. Department of Education also may initiate an emergency action to temporarily suspend an institution’s participation in Title IV programs without advance notice if it determines that a regulatory violation creates an imminent risk of material loss of public funds.

The HEA requires each accrediting agency recognized by the U.S. Department of Education to undergo comprehensive periodic review by the U.S. Department of Education to ascertain whether such accrediting agency is adhering to required standards. If an accreditation agency loses its approval by the U.S. Department of Education, the HEA grants affected institutions reasonable opportunity to apply for accreditation from a different agency.

The U.S. Department of Veterans Affairs, the U.S. Department of Defense, and the applicable state oversight agency also periodically review a location's compliance with guidance, regulations, and laws. The scope of the reviews vary, and noncompliance may result in students receiving liabilities on their U.S. Department of Defense or U.S. Department of Veterans Affairs educational benefits, as well as locations being subjected to fines, suspensions, and/or corrective action, including the location no longer being an approved location for students to access their U.S. Department of Defense or U.S. Department of Veterans Affairs educational benefits, and potential program eligibility elimination.

Financial Responsibility Standards. Education institutions participating in Title IV programs must satisfy a series of specific standards of financial responsibility. The U.S. Department of Education has adopted standards to determine an institution’s financial responsibility to participate in Title IV programs. The regulations establish three ratios: (i) the equity ratio, intended to measure an institution’s capital resources, ability to borrow and financial viability; (ii) the primary reserve ratio, intended to measure an institution’s ability to support current operations from expendable resources; and (iii) the net income ratio, intended to measure an institution’s profitability. Each ratio is calculated separately, based on the figures in the institution’s most recent annual audited financial statements, and then weighted and combined to arrive at a single composite score. The composite score must be at least 1.5 in order for the institution to be deemed financially responsible without conditions or additional oversight. If an institution fails to meet any of these requirements, the U.S. Department of Education may set restrictions on the institution’s eligibility to participate in Title IV programs. Institutions are evaluated for compliance with these requirements as part of the

U.S. Department of Education's renewal of certification process and also annually as each institution submits its audited financial statements to the U.S. Department of Education.

Following the Transaction, the U.S. Department of Education separately considered our and our schools' compliance with the financial responsibility requirements on a consolidated basis. Due to the amount of indebtedness we incurred and goodwill we recorded in connection with the Transaction, we have not met the required quantitative measures of financial responsibility on a consolidated basis since the Transaction, including as of June 30, 2014. Accordingly, we are required by the U.S. Department of Education to post a letter of credit and are subject to provisional certification and additional financial and cash monitoring of our disbursements of Title IV funds. In April 2014 the U.S. Department of Education decreased its letter of credit requirement from $348.6 million to $302.2 million, which equals 15 percent of total Title IV aid received by students who attended the Company's institutions during the fiscal year ended June 30, 2013. We expect to be required to renew the letter of credit at this level for as long as our schools remain provisionally certified, although the U.S. Department of Education could increase or decrease the percentage of the Title IV funds used to determine the size of the letter of credit. Outstanding letters of credit reduce lending availability under our revolving credit facility, except to the extent that we obtain cash secured letters of credit, which we are permitted to do under our senior credit facility. In fiscal 2014, we used cash secured letters of credit from two lenders in the aggregate amount of $200.0 million in order to satisfy a portion of our letter of credit obligation to the U.S. Department of Education and obtained a letter of credit under our revolving credit facility for the remainder. In addition, in order to ensure our schools meet financial responsibility tests at the institutional level, we often contribute money to our schools at the end of each of our fiscal years. We may have less liquidity to fund such contributions in future years. We do not believe any reduction in contributions to our schools will have a material adverse impact on us, but can provide no assurances.

We expect to continue to not satisfy the U.S. Department of Education's quantitative measure of financial responsibility for the foreseeable future. As a result, we expect each of our institutions to be required to continue on provisional certification for additional three-year periods. While provisional certification does not by itself limit an institution's access to Title IV program funds, it does subject our institutions to closer review by the U.S. Department of Education and possible summary adverse action if one of our institutions commits a material violation of Title IV program requirements. Additionally, the U.S. Department of Education has placed our institutions on heightened cash monitoring Level 1 due to the provisional certification and has included a requirement in some of our program participation agreements that we obtain their approval prior to offering new programs at our institutions. We anticipate that future renewals of our institutions' provisional certifications will result in continuation of the requirement that we maintain a letter of credit, provisional certification and financial and cash monitoring in future years. Any conditions or limitations on our participation in the federal student financial aid programs in addition to the letter of credit, provisional certification and additional financial and heightened cash monitoring could adversely affect our revenues and cash flows. There can be no assurance that the U.S. Department of Education will not require further restrictions as a condition of the renewal of our certification and that such additional restrictions will not materially and adversely impact our revenues and cash flows.

In the event of a bankruptcy filing by any of our schools, the schools filing for bankruptcy would not be eligible to receive Title IV program funds, notwithstanding the automatic stay provisions of federal bankruptcy law, which would make any reorganization difficult to implement. In addition, our other schools may be held to be jointly responsible for financial aid defaults experienced at the bankrupt schools. In the event of a bankruptcy filing by us, all of our schools could lose their eligibility to receive Title IV program funds, which would have a material adverse effect on our business, financial condition and results of operations.

Cohort Default Rates. Under the HEA, an institution may lose its eligibility to participate in certain Title IV programs if the rates at which the institution's students default on their federal student loans exceed specified percentages. The U.S. Department of Education calculates these rates for each institution on an annual basis, based on the number of students who have defaulted, not the dollar amount of such defaults. Each institution that participated in the FFEL/Direct Loan program and/or participates in the Direct Loan program receives a FFEL/Direct Loan cohort default rate for each federal fiscal year based on defaulted program loans. A federal fiscal year is October 1 through September 30. Beginning in September 2012, the U.S. Department of Education began to calculate an institution's annual cohort default rate based on two methodologies: the rate at which borrowers scheduled to begin repayment on their loans in one federal fiscal year default on those loans by the end of the next federal fiscal year (the "Two-Year CDR"); and the rate at which borrowers scheduled to begin repayment on their loans in one federal fiscal year default on those loans by the end of the second succeeding federal fiscal year (the "Three-Year CDR"). Federal fiscal year 2011 is the last fiscal year for which the U.S. Department of Education will publish the Two-Year CDR.

Under the Two-Year CDR, if an institution's FFEL/Direct Loan cohort default rate equals or exceeds 25% for each of the three most recent federal fiscal years, it no longer will be eligible to participate in the FFEL/Direct Loan and Pell programs for the remainder of the federal fiscal year in which the U.S. Department of Education determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's FFEL/Direct Loan cohort default rate exceeds 40% for any single fiscal year, it no longer will be eligible to participate in the Direct Loan program for the remainder of the federal fiscal year in which the U.S. Department of Education determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If, at any given point, an institution's Perkins cohort default rate equals or exceeds 50% for each of the three most recent federal fiscal years, it no longer will be eligible to participate in the Perkins programs for the remainder of the federal fiscal year, in which the U.S. Department of Education determines that such institution has lost its eligibility and for the two subsequent federal fiscal years.

The U.S. Department of Education typically publishes draft cohort default rates in February and the final rates in September of each year. None of our schools has had a FFEL/Direct Loan Two-Year CDR of 25% or greater for any of the last three consecutive federal fiscal years.

Our final Two-Year CDRs for federal fiscal year 2011 were as follows:

Institution	Fiscal 2011 Two-Year CDR (%)
The Art Institute of Atlanta	14.8
The Art Institute of Colorado	13.9
The Art Institute of Fort Lauderdale	12.3
The Art Institute of Houston	16.4
The Art Institute of New York City	17.9
The Art Institute of Philadelphia	11.2
The Art Institute of Phoenix	18.1
The Art Institute of Pittsburgh	19.7
The Art Institute of Portland	7.1
The Art Institute of Seattle	12.4
The Art Institute of York - Pennsylvania	14.9
The Art Institutes International Minnesota	9.8
The Illinois Institute of Art - Chicago	12.6
Miami International University of Art & Design	12.4
The New England Institute of Art	12.0
Argosy University	14.0
South University	17.4
Brown Mackie College - Salina	15.4

The weighted average of the combined official FFEL/Direct Loan Two-Year CDRs for borrowers at our institutions during federal fiscal year 2011 was 16.3%.

Under the Three-Year CDR calculation, most institutions' respective cohort default rates will increase materially due to the extended default period. The HEA reauthorization provided some relief from the increase in cohort default rates by increasing the default rate threshold for the Three-Year CDR from 25% to 30% and by requiring that the rate as calculated under the Two-Year CDR methodology will be used in determining sanctions associated with high cohort default rates until the Three-Year CDRs have been calculated and issued for fiscal 2010, 2011 and 2012, the latter of which will be calculated and issued in 2015. Our final Three-Year CDRs for federal fiscal years 2010 and 2011 were as follows:

Institution	Fiscal 2010 Three-Year CDR (%)	Fiscal 2011 Three-Year CDR (%)
The Art Institute of Atlanta	23.5	22.3
The Art Institute of Colorado	18.5	18.7
The Art Institute of Fort Lauderdale	19.4	19.2
The Art Institute of Houston	25.2	22.8
The Art Institute of New York City	25.6	21.3
The Art Institute of Philadelphia	20.1	16.6
The Art Institute of Phoenix	26.2	24.6
The Art Institute of Pittsburgh	25.4	24.9
The Art Institute of Portland	13.7	11.4
The Art Institute of Seattle	17.2	16.3
The Art Institute of York - Pennsylvania	18.3	19.5
The Art Institutes International Minnesota	15.9	13.4
The Illinois Institute of Art - Chicago	19.9	18.9
Miami International University of Art & Design	22.2	20.5
The New England Institute of Art	17.1	14.7
Argosy University	15.8	19.4
South University	23.0	23.1
Brown Mackie College - Salina	20.1	19.2

The weighted average FFEL/Direct Loan Three-Year CDR for borrowers at our institutions was 22.1% in each of the combined fiscal 2010 and 2011 periods. Institutions that exceed the FFEL/Direct Loan cohort default rate threshold (25% under the current Two-Year CDR calculation) or have a cohort default rate for Perkins loans that exceeds 15% for the most recent federal award year (July 1 through June 30) may be placed on provisional certification status for up to three years. Provisional certification by itself does not limit an institution's access to Title IV program funds, but does subject that institution to closer review by the U.S. Department of Education and possible summary adverse action if the U.S. Department of Education determines that the institution is unable to meet its responsibilities under its program participation agreement.

As of June 30, 2014, eleven of our twelve institutions participating in the Perkins program had Perkins cohort default rates in excess of 15% for students who were to begin repayment during the federal award year ended June 30, 2013, the most recent year for which such rates have been calculated. None of these institutions had a Perkins cohort default rate in excess of 50%. Funds from the Perkins program did not exceed 4.6% of these institutions' respective net revenues in fiscal 2014. None of these institutions has been placed on provisional certification for this reason. Because we have not disbursed Perkins loans at three of our institutions during the past few years, it is possible that the U. S. Department of Education may not permit those institutions to participate in the Perkins program in the future.

Each of our schools whose students participate in the FFEL/Direct Loan program maintains a student loan default management plan if its default rate equals or exceeds 5%. Those plans provide for extensive loan counseling, methods to increase student persistence and completion rates and graduate employment rates, strategies to increase graduate salaries and, for most schools, the use of external agencies to assist the school with loan counseling and loan servicing after a student ceases to attend that school. These activities are in addition to the loan servicing and collection activities of FFEL/Direct Loan lenders and guaranty agencies. The historical default rates experienced by Argosy University and Western State College of Law have been relatively low, and therefore these schools have engaged in significantly fewer default management activities.

Recertification of Title IV Eligibility. The U.S. Department of Education is required to conduct periodic reviews to determine whether to renew the eligibility and certification of every institution participating in Title IV programs. Generally, such reviews occur every six years, and after three years for an institution on provisional certification. A denial of renewal of certification precludes a school from continuing to participate in Title IV programs. Currently, all of our schools are operating under provisional program participation agreements with the U.S. Department of Education due to the debt incurred and goodwill recorded in connection with the Transaction. The current provisional certifications of our institutions expire as follows: nine institutions expire in fiscal 2015, five of which are currently under review; four institutions expire in fiscal 2016; and five institutions expire in fiscal 2017.

Return of Title IV Funds. Institutions that receive Title IV funds must follow requirements that ensure the return to the federal student financial aid programs of all unearned funds of a student who withdraws from a program. If refunds are not properly calculated and timely paid, institutions are subject to adverse actions by the U.S. Department of Education. The independent Title IV compliance audits for fiscal 2014 are currently in process.

Administrative Capability Requirements. Regulations of the U.S. Department of Education specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV programs. These criteria require, among other things, that the institution comply with all applicable federal student financial aid regulations, have capable and sufficient personnel to administer Title IV programs, have acceptable methods of defining and measuring the satisfactory academic progress of its students, provide financial aid counseling to its students and submit all reports and financial statements required by the regulations. If an institution fails to satisfy any of these criteria, the U.S. Department of Education may require the repayment of federal student financial aid funds, transfer the institution from the advance system of payment of Title IV program funds to the cash monitoring or reimbursement method of payment, place the institution on provisional certification status or commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs.

Restrictions on Operating Additional Schools. The HEA generally requires that certain educational institutions be in full operation for two years before applying to participate in Title IV programs. However, under the HEA and applicable regulations, an institution that is certified to participate in Title IV programs may establish an additional location and apply to participate in Title IV programs at that location without reference to the two-year requirement if such additional location satisfies all other applicable requirements. If the institution is provisionally certified (which is the case for our institutions that participate in Title IV programs), the institution must apply for approval from the U.S. Department before disbursing Title IV funds to students attending the additional location. In addition, a school that undergoes a change of ownership resulting in a change of control (as defined under the HEA) must be reviewed and recertified for participation in Title IV programs under its new ownership. All of our schools are currently provisionally certified due to the Transaction. During the time when a school is provisionally certified, it may be subject to summary adverse action for a material violation of Title IV program requirements and may not establish additional locations or educational programs without prior approval from the U.S. Department of Education. However, provisional certification does not otherwise limit an institution's access to Title IV program funds. Our expansion plans are based, in part, on our ability to add additional locations or programs and acquire schools that can be recertified.

The "90/10 Rule". Under a provision of the HEA commonly referred to as the "90/10 Rule," an institution will cease to be eligible to participate in Title IV programs if, on a cash accounting basis, more than 90% of its revenues for each of two consecutive fiscal years were derived from Title IV programs as calculated under the applicable regulations. If an institution loses its Title IV eligibility under the 90/10 Rule, it may not reapply for eligibility until the end of two fiscal years. Institutions that fail to satisfy the 90/10 Rule for one fiscal year are placed on provisional certification. For our institutions that disbursed federal financial aid during fiscal 2014, the percentage of revenues derived from Title IV programs ranged from approximately 55% to 81%, with a weighted average of approximately 76%.

The following table shows the 90/10 ratio for each of our institutions for the fiscal year ended June 30, 2014:

Institution	90/10 Ratio
Brown Mackie College - Salina	81%
The Art Institute of Pittsburgh	81%
South University	80%
The Art Institute of Phoenix	80%
Argosy University	77%
The Illinois Institute of Art - Chicago	76%
The Art Institute of New York City	74%
The Art Institute of Philadelphia	74%
The Art Institute of York - Pennsylvania	72%
The Art Institute of Fort Lauderdale	72%
The Art Institute of Atlanta	71%
The Art Institute of Portland	70%
The New England Institute of Art	69%
The Art Institute of Houston	68%
The Art Institutes International Minnesota	67%
The Art Institute of Colorado	63%
Miami International University of Art & Design	58%
The Art Institute of Seattle	55%

Continued decreases in the availability of state grants, together with the inability of households to pay cash due to the current economic climate and decreased availability of private loans, have adversely impacted our ability to comply with the 90/10 Rule because state grants generally are considered cash payments for purposes of the 90/10 Rule. During fiscal 2014, students attending our schools received approximately $195 million of financial aid from military sources of which the significant majority was from the U.S. Department of Veterans Affairs and a lesser amount was from the U.S. Department of Defense. Some members of Congress have proposed substantially decreasing the amount of education benefits available to veterans and the budget for the U.S. Department of Defense in connection with the current federal budget issues. Further, a U.S. Department of Defense appropriations bill for fiscal year 2014 has passed the U.S. Senate Appropriations Committee which includes a rider that would revise the 90/10 Rule to no longer treat financial aid from the U.S. Department of Veteran Affairs and U.S. Department of Defense as cash payments for purposes of the rule and to prohibit institutions from participating in Title IV programs for one year if they derive more than 90% of their total revenue on a cash accounting basis from the Title IV programs in a single fiscal year rather than the current rule of two consecutive fiscal years. In May 2012, attorneys general from 21 states and a chief consumer-affairs official for another state sent a letter to the leaders of the House and Senate education and veterans-affairs committees requesting that they revise the 90/10 Rule so that GI Bill and other educational benefits for military veterans count toward the 90-percent cap on the amount of annual revenue a proprietary college may receive from federal student-aid programs. These proposed revisions to the 90/10 Rule would have a negative impact on our ability to comply with the 90/10 Rule if they are approved by Congress and the President and become law. If any of our institutions violates the 90/10 Rule, its ineligibility to participate in Title IV programs for at least two years would have a material adverse effect on our enrollments, net revenues and results of operations.

State Authorization

Each of our U.S. campuses is authorized to offer education programs and grant degrees or diplomas by the state in which such school is physically located. The level of regulatory oversight varies substantially from state to state. In some states, the schools are subject to licensure by the state education agency and also by a separate higher education agency. Some states assert jurisdiction over online educational institutions that offer educational services to residents in the state or that advertise or recruit in the state, notwithstanding the lack of a physical location in the state. State laws may establish standards for instruction, qualifications of faculty, location and nature of facilities, financial policies, marketing and recruiting activities and other operational matters. State laws and regulations may limit our ability to obtain authorization to operate in certain states or to award degrees or diplomas or offer new degree programs. Certain states prescribe standards of financial responsibility and other operating standards that are different from those prescribed by the U.S. Department of Education. If we are found not to be in compliance with an applicable state regulation and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit or enroll students in that state and may have to cease providing services and advertising in that state, which could have a material adverse effect on our student enrollment and revenues.

Each of our U.S. schools is accredited by a national or regional accreditation agency recognized by the U.S. Department of Education, and some educational programs are also programmatically accredited. The level of regulatory oversight and standards can vary based on the agency. Accreditation agencies prescribe standards that are different from those prescribed by the U.S. Department of Education.

If a school does not meet state requirements, its state licensing could be limited, modified, suspended or terminated. Failure to maintain licensure makes a school ineligible to participate in Title IV programs. Under the HEA, an institution must be authorized by each state in which it is located to participate in Title IV programs. The state authorization regulations adopted by the U.S. Department of Education effective July 1, 2011 established specific new federal minimum requirements with respect to the sufficiency of a state's authorization of an educational institution for participation in Title IV programs. The U.S. Department of Education stated at the time it published the final regulation that it recognized that a state might be unable to provide appropriate state authorizations to its institutions by the July 1, 2011 effective date of the regulation and that institutions unable to obtain state authorization in that state may request a one-year extension of the effective date of the regulations to July 1, 2012 (and, if necessary, an additional one year extension of the effective date to July 1, 2013). The U.S. Department of Education has subsequently published notices extending the effective date of the regulation to July 1, 2014 and, most recently, to July 1, 2015, for institutions whose state authorization does not meet the requirements of these regulations, so long as the state is establishing an acceptable authorization process that is to take effect by the delayed implementation date. The U.S. Department of Education has not specified which state laws it considers to be inadequate. In the event that any states in which we have schools are found to not comply with the new state licensing regulations as of July 1, 2015, the affected schools could be deemed to have lacked state authorization and subject to sanctions, including loss of Title IV eligibility and a requirement to repay funds disbursed to students during the period in which the schools purportedly lacked state authorization. Additionally, students at our schools located in those states would be unable to access Title IV program funds, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

The state authorization regulations adopted effective as of July 1, 2011 also provided that if an institution offers post-secondary education through distance education to students in a state in which the institution is not physically located, the institution must satisfy any requirements of that state for the institution to offer post-secondary distance education to students in that state. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the regulations requiring proof of state approval for online education programs on procedural grounds, and that ruling was later upheld on appeal. However, the U.S. Department of Education warned in a Dear Colleague Letter dated July 27, 2012 that while it cannot enforce the requirements for online education programs, institutions must continue to be responsible for complying with all state laws as they relate to distance education. The courts also ruled that the U.S. Department of Education may elect to re-introduce this rule, which it did through the program integrity negotiated rulemaking sessions which were held in February, March, April and May 2014. The negotiations ended with the committee failing to reach a consensus, and the U.S. Department of Education has not provided a new distance education proposal for public comment. For the rule to be effective on July 1, 2015, a final version would need to be published by November 1, 2014. No assurance can be given with respect to whether the U.S. Department of Education will adopt new rules addressing licensing requirements for distance education or, in the event that such regulations are adopted, our ability to comply with the new regulations.

Certain of the state authorizing agencies and accrediting agencies with jurisdiction over our schools also have requirements that may, in certain instances, limit our ability to open a new school, acquire an existing school, establish an additional location of an existing school or add new educational programs.

Canadian Regulation and Financial Aid

The Art Institute of Vancouver is subject to regulation in the Province of British Columbia and in the provinces in which it recruits students. Depending on their province of residence, our Canadian students may receive loans under the federally funded Canada Student Loan Program and/or provincial funding from their province of residence. Canadian schools must meet eligibility standards to administer these programs and must comply with all relevant statutes, rules, regulations and requirements. We believe that The Art Institute of Vancouver currently holds all necessary registrations, approvals and permits and meets all eligibility requirements to administer these governmental financial aid programs. If The Art Institute of Vancouver cannot meet these and other eligibility standards or fails to comply with applicable requirements, it could have a material adverse effect on our business, results of operations, cash flows or financial condition.

The British Columbia government, through its Ministry of Advanced Education and Labour Market Development (the "Ministry"), regulates private career colleges through an arm's-length accreditation and registration body called the Private Career Training Institutions Agency of British Columbia (“PCTIA”) and provides financial assistance to eligible students through the StudentAid BC (“SABC”). The student aid program includes a federal component under the Canada Student Loan Program and a provincial portion administered through the provincial SABC program. In order to maintain the right to administer student assistance, The Art Institute of Vancouver must abide by the rules, regulations and administrative manuals and Memorandum of Agreements with the Canada Student Loan Program and the SABC programs.

Post-secondary institutions located in Vancouver which have a student loan repayment rate of less than 60% are subject to intervention by the Ministry and required to submit improvement plans. In the case of failure to comply and/or improve, the Ministry may make continue designation conditional with specific requirements within a specified period or terminate the institution's designation. The compliance staff of the Ministry will work with schools with low repayment rates to manage and seek solutions for low repayment rates. In 2013, the official repayment rates for The Art Institute of Vancouver and its branch location were 79.8% and 77.8%, respectively.

Institutions cannot automatically acquire student aid designation through the acquisition of other student aid eligible institutions. In the event of a change of ownership, including a change in controlling interest, the Ministry of Advanced Education and Labour Market Development, as well as SABC, require evidence that the institution has continued capacity and a formal undertaking to comply with registration and student aid eligibility requirements. Given that the Province of British Columbia and PCTIA periodically revise their respective regulations and other requirements and change their respective interpretations of existing laws and regulations, we cannot assure you that the provincial government and PCTIA will agree with our interpretation of each requirement.

Canadian schools are required to audit their administration of student aid programs annually or as otherwise directed by SABC. We believe that we have complied with these requirements.

Employees

At June 30, 2014, we had approximately 20,800 employees. Of these employees, approximately 10,800 (including approximately 2,500 faculty members) were full time employees, approximately 9,800 were part-time employees (most of which were faculty members) and approximately 200 employees were on leave status.

Competition

The post-secondary education market is highly fragmented and competitive. Our schools compete for students with traditional public and private two-year and four-year colleges and universities and other proprietary providers, including those that offer distance learning programs. Many public and private colleges and universities, as well as other proprietary providers, offer programs similar to those we offer. In particular, we believe the competition for students attending fully-online programs has increased over the last several years as more institutions, including public and private institutions, offer degrees to fully-online students. Public institutions receive substantial government subsidies, and both public and private institutions have access to government and foundation grants, tax-deductible contributions and other financial resources generally not available to proprietary providers. Accordingly, public and private institutions may have facilities and equipment superior to those in the proprietary sector and often can offer lower effective tuition prices. Some of our competitors in both the public and private sectors also have substantially greater financial and other resources than we do.

Seasonality in Results of Operations

Our quarterly revenues and income fluctuate primarily as a result of the pattern of student enrollments at our schools. Our first fiscal quarter is typically our lowest revenue recognition quarter due to student vacations.

The Company

Education Management Corporation is a Pennsylvania corporation founded in 1962 with principal executive offices located at 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania 15222. We can be reached by telephone at (412) 562-0900 or via our website at www.edmc.edu. Our principal shareholders are private equity funds affiliated with Providence Equity Partners, Goldman Sachs Capital Partners and Leeds Equity Partners.

Availability of Reports

We make available financial information, news releases and other information on our Web site at *www.edmc.edu*. Information contained on our Web site is not part of this Form 10-K or our other filings with the Securities and Exchange Commission. There is a direct link from the Web site to our Securities and Exchange Commission filings, where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the Securities and Exchange Commission. Investors may also contact Investor Relations at 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania 15222 or call (412) 562-0900 to obtain a hard copy of these reports without charge.

ITEM 1A. RISK FACTORS

The following risks comprise all the material risks of which we are aware; however, these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business or financial performance. If any of the events or developments described below actually occurred, it could have a material adverse effect on our business, financial condition or results of operations.

RISKS RELATED TO OUR HIGHLY REGULATED INDUSTRY

Increased scrutiny of post-secondary education providers by Congress, State Attorneys General and various governmental agencies may lead to increased regulatory burdens and costs.

We and other proprietary post-secondary education providers have been subject to increased regulatory scrutiny and litigation in recent years. State Attorneys General, the U. S. Department of Education, members and committees of Congress and other parties have increasingly focused on allegations of improper recruiter compensation practices and deceptive marketing practices, among other issues. For example, on July 30, 2012, the majority staff of the HELP Committee issued a report, "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." While stating that proprietary colleges and universities have an important role to play in higher education and should be well-equipped to meet the needs of non-traditional students who now constitute the majority of the post-secondary educational population, the majority staff report was highly critical of these institutions. The report contended that these institutions have a high cost of attendance, engage in aggressive and deceptive recruiting, have high drop-out rates, provide insufficient student support services, and are responsible for high levels of student debt and loan defaults, among other things. The report called for increased disclosure of information about student outcomes at proprietary colleges and universities, prohibiting institutions from using federal financial aid funding to market, advertise and recruit, amending the 90/10 Rule to prohibit these institutions from receiving more than 85 percent of their revenues from federal funds, prohibiting the use of mandatory binding arbitration clauses in enrollment agreements, and other measures ostensibly to protect students and taxpayers.

On January 30, 2014, the FTC announced a new system to handle complaints from military veterans and service members regarding higher education institutions, providing customized online reporting forms to file complaints directly with the U.S. Department of Veterans Affairs and the U.S. Department of Defense regarding issues such as cost of attendance, marketing, graduation rates, program quality employment prospects, and course credit. Students may also email similar complaints to the U.S. Department of Education. These complaints will be forwarded to the FTC's Consumer Sentinel Network database. In November 2013, the FTC published revised *Guides for Private Vocational and Distance Education Schools* expanding the scope of potential liability of proprietary schools and setting forth more stringent restrictions on advertising and recruitment practices by expanding the activities that the FTC considers "deceptive." The FTC actions are intended to comply with the Improving Transparency of Educational Opportunities for Veterans Act of 2012 which requires the FTC to partner with the U.S. Department of Veterans Affairs and other agencies to improve outreach and transparency regarding the quality of instruction, recruiting practices, and post-graduate employment by higher education institutions. In addition, in February 2014 the FTC requested documents and information from another publicly traded proprietary education company about that company's marketing, advertising and the sale of post-secondary products and services in order to determine whether violations of the Federal Trade Commerce Act occurred.

Additionally, a number of State Attorneys General have launched investigations into proprietary post-secondary education institutions, including some of our schools. We received subpoenas or requests for documents from the Attorneys General of Florida, Kentucky, New York, Colorado, and Massachusetts in October 2010, December 2010, August 2011, September 2012, and January 2013 respectively, and the San Francisco, California City Attorney in December 2011 in connection with investigations of our institutions and their business practices. We announced settlements of the Colorado Attorney General and San Francisco, California City Attorney investigations in December 2013 and June 2014, respectively. We have nine schools located in Florida, three schools located in Kentucky, one school located in New York, and one school in Massachusetts.

We received inquiries from 13 states in January 2014 and an additional state in March 2014 regarding our business practices. The Attorney General of the Commonwealth of Pennsylvania informed us that it will serve as the point of contact for the inquiries related to us. The inquiries focus on our practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results, and student lending activities, among other matters. Several other companies in the proprietary education industry have disclosed that they received similar inquiries. Further, the Consumer Financial Protection Bureau (the “CFPB”) has filed lawsuits against two publicly-traded companies in the education industry alleging that they engaged in predatory lending practices.

We cannot predict the extent to which, or whether, these regulatory actions, hearings, and investigations will result in legislation, further rulemaking affecting our participation in Title IV programs, or litigation alleging statutory violations, regulatory infractions or common law causes of action. The adoption of any law or regulation that reduces funding for federal student financial aid programs or the ability of our schools or students to participate in these programs could have a material adverse effect on our student population and revenue. Legislative action also may increase our administrative costs and require us to modify our practices in order for our schools to comply with applicable requirements. Additionally, actions by State Attorneys General and other governmental agencies could damage our reputation and limit our ability to recruit and enroll students, which could reduce student demand for our programs and adversely impact our revenue and cash flow from operations.

Failure of our schools to comply with extensive regulations could result in monetary liabilities or assessments, restrictions on our operations, limitations on our growth or loss of external financial aid funding for our students, which could materially and adversely affect our business, results of operations, financial condition and cash flows.

A substantial majority of our net revenues are indirectly derived from federal student financial aid programs pursuant to Title IV of the HEA. Our participation in Title IV programs is subject to certification and oversight by the U.S. Department of Education and is further conditioned upon approvals granted by other agencies. Each of our schools also must obtain and maintain approval to enroll students, offer instruction and grant credentials from the state authorizing agency in the state in which the school is located. Such approval is also a precondition to the ability of our students to participate in Title IV programs. Participation in Title IV programs also requires each school to be accredited by an accrediting agency recognized by the U.S. Department of Education as a reliable authority on institutional quality and integrity. Accreditation is, in turn, conditioned upon the maintenance of applicable state authorization. Our schools also must comply with the requirements of state financial aid programs that are available to our students and the requirements of specialized accrediting agencies that oversee educational quality in particular program areas. As a result, our schools are subject to extensive regulation and review by these agencies which cover virtually all phases of our operations. These regulations also affect our ability to acquire or open additional schools, add new educational programs, substantially change existing programs or change our corporate or ownership structure. The agencies that regulate our operations periodically revise their requirements and modify their interpretations of existing requirements. See Item 1 -- “Business,” “- Accreditation”, “- Student Financial Assistance”, “- Federal Oversight of Title IV Programs”, “ - State Authorization and Accreditation Agencies” and “- Canadian Regulation and Financial Aid” above.

If any of our schools were to violate or fail to meet any of these legal and regulatory requirements, we could suffer monetary liabilities or assessments, limitations on our operating activities, loss of accreditation, limitations on our ability to add new schools or offer new programs, termination of or limitations on the school’s ability to grant degrees and certificates, or limitations on or suspension or termination of the school’s eligibility to participate in federal student financial aid programs. A significant portion of our students rely on federal student financial aid funds to finance their education. We cannot predict with certainty how all of these requirements will be applied or interpreted by a regulatory body or whether each of our schools will be able to comply with all of the applicable requirements in the future.

Regulations adopted by the U.S. Department of Education could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

The U.S. Department of Education has promulgated a substantial number of new regulations in the past three years that impact our business, including but not limited to compensation rules for persons engaged in certain aspects of admissions and financial aid, state authorization, determination of attendance and definitions of a “credit hour” and a “substantial misrepresentation” which became effective on July 1, 2011. These new regulations have had significant impacts on our business. For example, we implemented a new compensation plan for our admissions representatives beginning in the third quarter of fiscal 2011 in response to the revised compensation rules for employees who are engaged in recruiting of students or the awarding of financial aid and revised other practices and have increased the number of states in which we obtain licensure for our schools.

The U.S. Department of Education published a Notice of Proposed Rules in the Federal Register on March 25, 2014 which requested comment on the adoption of three annual metrics for measuring whether programs offered by proprietary institutions such as ours lead to “gainful employment” in a recognized occupation. Under the HEA, with the exception of certain liberal arts degree programs, proprietary schools are eligible to participate in Title IV programs only with respect to educational programs that prepare a student for “gainful employment in a recognized occupation.” The U.S. Department of Education previously adopted regulations that were scheduled to become effective as of July 1, 2012 and that would have for the first time set forth standards for measuring whether programs lead to gainful employment in a recognized occupation. These regulations, which were vacated by a federal court decision, would have established three annual metrics related to student loan borrowing which would have imposed certain restrictions on programs up to and including the prohibition on participation in Title IV financial aid programs in the event that the metrics were not satisfied over a period of time. In response, the new gainful employment regulation proposed by the U.S. Department of Education would cause each educational program covered by the rule to fail if the student-loan debt payments of graduates of the program exceed 12 percent of their annual incomes and 30 percent of their discretionary incomes, the same ratios as in the original rule vacated by the federal court decision. Programs whose graduates have debt-to-annual-income ratios of 8 percent to 12 percent or debt-to-discretionary-income ratios of 20 percent to 30 percent would fall in a "zone", and the institution would have to warn students that they might become ineligible for aid. Programs that fail both debt-to-annual-income tests twice in any three-year period or are in the zone or failing for four consecutive years would be ineligible for federal student aid. In response to the 2012 Court ruling, the proposed gainful employment regulation uses programmatic cohort default rates rather than loan-repayment rates as an additional test. Programs whose borrower cohort default rates equal or exceed 30 percent for three consecutive years would be ineligible for federal student aid. The comment period ended May 27, 2014. A final rule must be published in the Federal Register by November 1, 2014 to be effective as of July 1, 2015. The U.S. Department of Education estimated that approximately 1,000,000 students, or approximately 50% of the total number of students enrolled in proprietary post-secondary institutions, are enrolled in programs that would either fail or fall into the zone for improvement under the proposed gainful employment metrics. Though the calculation was based on 2012 informational rate data and therefore does not reflect any program eliminations and other efforts to comply with the proposed rule, over 50% of our program offerings failed to satisfy the gainful employment test based on graduate data published by the U.S. Department of Education. If the final gainful employment rule is substantially similar to the proposed rule published for comment, it would have a material adverse effect on our business, cash flows and results of operations.

In addition, the HEA is scheduled for reauthorization in 2014 and the reauthorization process may result in significant changes to the post-secondary education industry. Among other things, there have been proposals in Congress to amend the 90/10 Rule in connection with the reauthorization of the HEA to prohibit proprietary institutions from receiving more than 85 percent of their revenues from federal funds, including veterans benefits and U.S. Department of Defense tuition assistance. Another proposal would prohibit federal education dollars from being used for advertising and marketing purposes. Any revisions to the HEA, the regulations adopted by the U.S. Department of Education, or the 90/10 Rule could have a material adverse impact on our business, cash flows and results of operations.

In January 2014, the U.S. Department of Education commenced negotiated rulemaking sessions to implement changes to the Clery Act required by the Violence Against Women Act which, among other items, requires institutions to compile additional statistics for certain crimes reported to campus security authorities or local police agencies, and include such information in its annual security report, along with certain policies, procedures, and programs pertaining to such crimes. A Notice of Proposed Rulemaking was published in the Federal Register on June 20, 2014 and comments were due on or before July 21, 2014. Since consensus was reached on the changes to the Clery Act, a final regulation is expected no later than November 1, 2014 with an effective date of July 1, 2015. The U.S. Department of Education has advised institutions that they are expected to make a good faith effort to comply with changes made to the Clery Act with the enactment of Violence Against Women Act when they update their Clery Report no later than October 1, 2014.

Additionally, another series of negotiated rulemaking sessions to address program integrity and improvement issues were held in February, March, April and May 2014 to address cash management of Title IV funds including use of debit cards and handling of Title IV credit balances; state authorization for programs offered through distance or correspondence education; state authorization for non-U.S. locations of educational institutions; clock to credit hour conversion; the definition of "adverse credit" for borrowers under the Federal Direct PLUS Loan Program; and the application of repeat coursework provisions to graduate and undergraduate programs. During the negotiated rulemaking sessions, the U. S Department of Education indicated that it planned to issue two Notices of Proposed Rulemaking, one which will include proposed PLUS loan adverse credit history regulations and the second will address the remaining proposed regulations. On August 8, 2014, a Notice of Proposed Rulemaking on PLUS loan adverse credit history regulation was published in the Federal Register; comments were due on or before September 8, 2014. The U.S. Department of Education has yet to publish a Notice of Proposed Rulemaking on the remaining regulations.

We cannot predict with certainty how new regulations will be interpreted or whether we and our schools will be able to comply with these requirements in the future. The new regulations may also subject us to *qui tam* lawsuits by private parties for alleged violations of the federal False Claims Act or similar state False Claims Acts. Any such actions by other bodies that affect our programs and operations or lawsuits under the False Claims Act could have a material adverse effect on our student population, our business, financial condition, results of operations and cash flows.

A finding that we violated the U.S. Department of Education's substantial misrepresentation regulation, which significantly expanded the scope of the regulation, could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

The substantial misrepresentation regulation adopted by the U. S. Department of Education effective July 1, 2011 significantly expanded what may constitute substantial misrepresentation by an institution, including statements about the nature of its educational programs, its financial charges or the employability of its graduates. Any false, erroneous, or misleading statement that an institution, one of its representatives, or person or entity with whom the institution has an agreement to provide educational programs, marketing, advertising, recruiting or admissions services, makes directly or indirectly to a student, prospective student, any member of the public, an accrediting agency, a state licensing agency or the U.S. Department of Education could be deemed a misrepresentation by the institution. In the event that the U.S. Department of Education determines that an institution engaged in a substantial misrepresentation, it can revoke the institution's program participation agreement, impose limitations on the institution's participation in Title IV programs, deny participation applications on behalf of the institution, or seek to fine, suspend or terminate the institution's participation in Title IV programs. In June 2012, the United States Court of Appeals for the District of Columbia Circuit issued a decision holding, among other things, that portions of the substantial misrepresentation regulation allowing the U.S. Department of Education to revoke the institution's program participation agreement or impose limitations on the institution's participation without affording procedural protections were unlawful. The new regulation could create an expanded role for the U.S. Department of Education in monitoring and enforcing prohibitions on misrepresentation.

If we fail to obtain periodic recertifications for our schools to participate in Title IV programs, or if our certifications are withdrawn by the U.S. Department of Education prior to the next scheduled recertification, students at the affected schools would no longer be able to receive Title IV program funds.

Our institutions are required to seek recertifications from the U.S. Department of Education upon expiration of their provisional certifications, which occur approximately every three years in order to participate in Title IV programs due to their provisional certification status. The current provisional certifications of our institutions expire as follows: nine institutions expire in fiscal 2015, five of which are currently under review; four institutions expire in fiscal 2016; and five institutions expire in fiscal 2017. The U.S. Department of Education will also review our schools' continued certifications in the event that we undergo a change of ownership and control pursuant to U.S. Department of Education regulations. In addition, the U.S. Department of Education may take emergency action to suspend any of our schools' certification without advance notice if it receives reliable information that a school is violating Title IV requirements and determines that immediate action is necessary to prevent misuse of Title IV funds. The U.S. Department of Education also may conduct periodic announced and unannounced audits, reviews and investigations of our institutions. Four of our institutions were the subject of U.S. Department of Education program reviews in each of fiscal 2014 and 2013. We received final determination letters from the U.S. Department of Education for two program reviews in fiscal 2014, and have not received a final determination letter for three of the four program reviews performed in fiscal 2014, two program reviews performed in fiscal 2013 and two program reviews performed in fiscal 2012. Of the seven program reviews for which we have not received a final determination letter, we have responded to an initial report from the U.S. Department of Education for five of the program reviews, received an initial report for one program review in September 2014 and have not received an initial report for one program review. One of the initial reports we received in September 2014 requires the reconstruction of fiscal 2011 attendance records for the fully-online programs offered by one of our institutions and a related calculation of amounts required to be returned to the U.S. Department of Education under Title IV programs due to student withdrawals. The initial report also cites impaired administrative capabilities concerning attendance policies. The U.S. Department of Education has informed us that it will not act on our application to renew the provisional certification or approve new programs for the institution until we resolve the issues raised in the initial report. We are currently assessing the findings set forth in the report. A determination that one of our institutions is required to refund a material amount of Title IV funds to the U.S. Department of Education, or if one of our institutions loses or is limited in its access to federal student financial aid funds due to a failure to demonstrate administrative capability, comply with other requirements of Title IV programs or the U.S. Department of Education's decision to not renew or withdraw its certification to participate in Title IV programs, would have a material adverse effect on our enrollments, revenue, results of operations and cash flows.

Congress may change eligibility standards or reduce funding for federal student financial aid programs, or other governmental or regulatory bodies may change similar laws or regulations relating to other student financial aid programs, which could reduce our student population, revenue and cash flows.

Political and budgetary concerns can significantly affect Title IV programs and other laws and regulations governing federal and state student financial aid programs. Title IV programs are made available pursuant to the provisions of the HEA, and the HEA must be reauthorized by Congress approximately every six years. Independent of reauthorization, Congress must annually appropriate funds for Title IV programs. In August 2008, the most recent reauthorization of the HEA was enacted, continuing the Title IV HEA programs through at least September 30, 2014 with an automatic one-year extension if the HEA is not reauthorized by that date.

Future reauthorizations or appropriations may result in numerous legislative changes, including those that could adversely affect our ability to participate in the Title IV programs and the availability of Title IV and non-Title IV funding sources for our students. Congress also may impose certain requirements upon the state or accrediting agencies with respect to their approval of our schools. Any action by Congress or the U.S. Department of Education that significantly reduces funding for the federal student financial aid programs or the ability of our schools or students to participate in these programs would have a material adverse effect on our student population and revenue. Legislative action also may increase our administrative costs and require us to modify our practices in order for our institutions to comply fully with applicable requirements.

If we do not meet specific financial responsibility ratios and other compliance tests established by the U.S. Department of Education, our institutions may lose eligibility to participate in federal student financial aid programs, which may result in a reduction in our student enrollment and an adverse effect on our results of operations and cash flows.

To participate in federal student financial aid programs, an institution, among other things, must either satisfy certain quantitative standards of financial responsibility on an annual basis or post a letter of credit in favor of the U.S. Department of Education and possibly accept other conditions or limitations on its participation in the federal student financial aid programs. Due to the amount of indebtedness we incurred and goodwill we recorded in connection with the Transaction, we have not met the required quantitative measures of financial responsibility on a consolidated basis since the Transaction, including as of June 30, 2014. Accordingly, we are required by the U.S. Department of Education to post a letter of credit and are subject to provisional certification and additional financial and cash monitoring of our disbursements of Title IV funds. In April 2014, the U.S. Department of Education decreased the required letter of credit from $348.6 million, 15% of the Title IV program funds received by students at our institutions during fiscal 2012, to $302.2 million, or 15% of total Title IV aid received by students attending our institutions during the fiscal 2013. We expect to be required to renew the letter of credit at the 15% level for as long as our schools remain provisionally certified, although the U.S. Department of Education could increase or decrease the percentage of Title IV funds used to determine the size of the letter of credit. Outstanding letters of credit reduce lending availability under our revolving credit facility, except to the extent that we obtain cash secured letters of credit, which we are permitted to do under our senior credit facility. In the future, we may not have sufficient letter of credit capacity to satisfy the letter of credit requirement for the U.S. Department of Education, which would limit our growth and potentially subject us to operating restrictions. In addition, in order to ensure our schools meet financial responsibility tests at the institutional level, we often contribute money to our schools at the end of each of our fiscal years. We may have less liquidity to fund such contributions in future years. We do not believe any reduction in contributions to our schools will have a material adverse impact on us, but can provide no assurances.

We expect to continue to not satisfy the U.S. Department of Education's quantitative measure of financial responsibility for the foreseeable future. As a result, we expect each of our institutions to be required to continue on provisional certification for additional three-year periods. While provisional certification does not by itself limit an institution's access to Title IV program funds, it does subject our institutions to closer review by the U.S. Department of Education and possible summary adverse action if one of our institutions commits a material violation of Title IV program requirements. Additionally, the U.S. Department of Education has placed our institutions on heightened cash monitoring Level 1 due to the provisional certification and has included a requirement in some of our program participation agreements that we obtain their approval prior to offering new programs at our institutions. We anticipate that future renewals of our institutions' provisional certifications will result in continuation of the requirement that we maintain a letter of credit, provisional certification and financial and cash monitoring in future years. Any conditions or limitations on our participation in the federal student financial aid programs in addition to the letter of credit, provisional certification and additional financial and heightened cash monitoring could adversely affect our revenues and cash flows. For example, Corinthian Colleges Inc., a publicly traded company in the proprietary post-secondary industry, announced in June 2014 that it was unable to meet its obligations in the ordinary course of business after the U.S. Department of Education placed it on heightened cash monitoring with a delay in reimbursements for Title IV funds beyond the typical five day period and it was unable to obtain additional financing from its lenders. There can be no assurance that the U.S. Department of Education will not require further restrictions as a condition of the renewal of our certification and that such additional restrictions will not materially and adversely impact our revenues and cash flows.

In the event of a bankruptcy filing by any of our schools, the schools filing for bankruptcy would not be eligible to receive Title IV program funds, notwithstanding the automatic stay provisions of federal bankruptcy law, which would make any reorganization difficult to implement. In addition, our other schools may be held to be jointly responsible for financial aid defaults experienced at the bankrupt schools. In the event of a bankruptcy filing by us, all of our schools could lose their eligibility to receive Title IV program funds, which would have a material adverse effect on our business, financial condition and results of operations.

If we do not meet specific cohort default rate benchmarks established by the U.S. Department of Education, our institutions may lose eligibility to participate in federal student financial aid programs, which may result in a reduction in our student enrollment and an adverse effect on our student population, results of operations and cash flows.

Under the HEA, an institution may lose its eligibility to participate in certain Title IV programs if the rates at which the institution’s students default on their federal student loans exceed specified percentages, and these rates are expected to increase under recent changes to the calculation of cohort default rates under the HEA. See “Business - Federal Oversight of Title IV Programs - Cohort Default Rates." Certain of our institutions have default rates in excess of specified rates in the Federal Perkins Loan Program, which is not a material federal student aid program for us or any of our institutions. Though we believe our institutions do not exceed either the specified rates for student default for our material programs or the percentage of revenue limitation test, loss of eligibility to participate in the federal student financial aid programs by one or more of our schools could have a material adverse effect on our student population, results of operations and cash flows. Because we have not disbursed Perkins loans at many of our institutions during the past few years, it is possible that the U. S. Department of Education may not permit those institutions to participate in the Perkins program in the future.

Moreover, the consumer credit markets in the United States have recently suffered from increases in default rates and foreclosures on mortgages. Providers of federally guaranteed student loans have also experienced recent increases in default rates. Any increase in interest rates could contribute to higher default rates with respect to repayment of our students' education loans. Such higher default rates may adversely impact our eligibility to participate in Title IV programs, which could result in a significant reduction in our student population, profitability and cash flows.

If any of our institutions either fails to demonstrate "administrative capability" to the U.S. Department of Education or violates other requirements of Title IV programs, the U.S. Department of Education may impose sanctions or terminate that school's participation in Title IV programs.

Regulations adopted by the U.S. Department of Education specify criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV programs. These criteria require, among other things, that the institution:

- comply with all applicable federal student financial aid regulations;
- have capable and sufficient personnel to administer the federal student financial aid programs;
- have acceptable methods of defining and measuring the satisfactory academic progress of its students;
- provide financial aid counseling to its students; and
- submit all reports and financial statements required by the regulations.

If an institution fails to satisfy any of these criteria, or any other of the legal and regulatory requirements of Title IV programs, the U.S. Department of Education may:

- require the repayment of federal student financial aid funds improperly disbursed;
- transfer the institution from the "advance" system of payment of federal student financial aid funds to the "reimbursement" system of payment or "cash monitoring";
- place the institution on provisional certification status; or
- commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs.

If one or more of our institutions loses or is limited in its access to, or is required to repay, federal student financial aid funds due to a failure to demonstrate administrative capability or to comply with other requirements of Title IV programs, our business could be materially adversely affected.

If our institutions do not comply with the 90/10 Rule, they will lose eligibility to participate in federal student financial aid programs.

A provision of the HEA requires all proprietary education institutions to comply with what is commonly referred to as the 90/10 Rule, which imposes sanctions on participating institutions that derive more than 90% of their total revenue on a cash accounting basis from Title IV programs as calculated under the regulations. An institution that derives more than 90% of its total revenue on a cash accounting basis from the Title IV programs for each of two consecutive fiscal years loses its eligibility to participate in Title IV programs and is not permitted to reapply for eligibility until the end of the following two fiscal years. Institutions which fail to satisfy the 90/10 Rule for one fiscal year are placed on provisional certification. Compliance with the 90/10 Rule is measured at the end of each of our fiscal years. For our institutions that disbursed federal financial aid during fiscal 2014, the percentage of revenues derived from Title IV programs ranged from approximately 55% to 81%, with a weighted average of approximately 76% as compared to a weighted average of approximately 76% in fiscal 2013. Continued decreases in the availability of state grants, together with the inability of households to pay cash due to the current economic climate and decreased availability of private loans, have adversely impacted our ability to comply with the 90/10 Rule because state grants generally are considered cash payments for purposes of the 90/10 Rule.

During fiscal 2014, students attending our schools received approximately $195 million of financial aid from military sources of which the significant majority was from the U. S. Department of Veterans Affairs and a lesser amount was from the U. S. Department of Defense. Some members of Congress have proposed substantially decreasing the amount of education benefits available to veterans and the budget for the U.S. Department of Defense in connection with the current federal budget issues. Further, a bill has been introduced in the U.S. Senate that would revise the 90/10 Rule to no longer treat financial aid from the U.S. Department of Veteran Affairs and U.S. Department of Defense as cash payments for purposes of the rule and prohibit institutions from participating in Title IV programs for one year if they derive more than 90% of their total revenue on a cash accounting basis from the Title IV programs in a single fiscal year rather than the current rule of two consecutive fiscal years. In May 2012, attorneys general from 21 states and a chief consumer-affairs official for another state sent a letter to the leaders of the House and Senate education and veterans-affairs committees requesting that they revise the 90/10 Rule so that GI Bill and other educational benefits for military veterans count toward the 90-percent cap on the amount of annual revenue a proprietary college may receive from federal student-aid programs. These proposed revisions to the 90/10 Rule would have a negative impact on our ability to comply with the 90/10 Rule if they are approved by Congress and the President and become law. If any of our institutions violates the 90/10 Rule, its ineligibility to participate in Title IV programs would have a material adverse effect on our enrollments, revenues, results of operations and cash flows.

Our failure to comply with various state regulations or to maintain any national, regional or programmatic accreditation could result in actions taken by those states or accrediting agencies that would have a material adverse effect on our student enrollment, results of operations and cash flows.

Under the HEA, an institution must be authorized by each state in which it is located to participate in Title IV programs. The state authorization regulations adopted by the U.S. Department of Education effective July 1, 2011 established specific new federal minimum requirements with respect to the sufficiency of a state's authorization of an educational institution for participation in Title IV programs. The U.S. Department of Education stated at the time it published the final regulation that it recognized that a state might be unable to provide appropriate state authorizations to its institutions by the July 1, 2011 effective date of the regulation and that institutions unable to obtain state authorization in that state may request a one-year extension of the effective date of the regulations to July 1, 2012 (and, if necessary, an additional one year extension of the effective date to July 1, 2013). The U.S. Department of Education has subsequently published notices extending the effective date of the regulation to July 1, 2014 and, most recently, to July 1, 2015, for institutions whose state authorization does not meet the requirements of these regulations, so long as the state is establishing an acceptable authorization process that is to take effect by the delayed implementation date. The U.S. Department of Education has not specified which state laws it considers to be inadequate. In the event that any states in which we have schools are found to not comply with the new state licensing regulations as of July 1, 2015, the affected schools could be deemed to have lacked state authorization and subject to sanctions, including loss of Title IV eligibility and a requirement to repay funds disbursed to students during the period in which the schools purportedly lacked state authorization. Additionally, students at our schools located in those states would be unable to access Title IV program funds, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

The state authorization regulations adopted effective as of July 1, 2011 also provided that if an institution offers post-secondary education through distance education to students in a state in which the institution is not physically located, the institution must satisfy any requirements of that state for the institution to offer post-secondary distance education to students in that state. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the regulations requiring proof of state approval for online education programs on procedural grounds, and that ruling was later upheld on appeal. However, the U.S. Department of Education warned in a Dear Colleague Letter dated July 27, 2012 that while it cannot enforce the requirements for online education programs, institutions must continue to be responsible for complying with all state laws as they relate to distance education. The courts also ruled that the U.S. Department of Education may elect to re-introduce this rule, which it did through the program integrity negotiated rulemaking sessions which were held in February, March, April and May 2014. The negotiations ended with the committee failing to reach a consensus, and the U.S. Department of Education has not provided a new distance education proposal for public comment. For the rule to be effective on July 1, 2015, a final version would need to be published by November 1, 2014. No assurance can be given with respect to whether the U.S. Department of Education will adopt new rules addressing licensing requirements for distance education or, in the event that such regulations are adopted, our ability to comply with the new regulations.

Beginning in fiscal 2012, ACICS, the accrediting agency for 38 Art Institutes and Brown Mackie Colleges, established compliance standards to measure student retention, graduate placement and licensure passage rates. In the event that a campus or program offered by a campus fails to meet the minimum compliance standard for two consecutive years after notice from ACICS and does not satisfy the requirement for a waiver, ACICS may withdraw accreditation from the campus or program. Based on preliminary projections, we believe that one campus location and 27 programs offered by ACICS-accredited campuses which did not meet the 2013 compliance standard may also not meet the fiscal 2014 compliance standard for retention or graduate placement after the consideration of waivers by ACICS. These programs and campus will have at least one additional year to meet the minimum compliance standard in the event that they fail to meet the fiscal 2014 compliance standard, subject to any additional modification of the student achievement standards by ACICS. As of June 30, 2014, approximately 2,200 students attended the campus or programs which we project may fail to meet the compliance standard for a second year. In the event that this campus and these programs do not meet the compliance standard as of June 30, 2014 and 2015 and ACICS does not revise it regulation to provide relief, it would have a material adverse effect on our enrollments, revenues, results of operations and cash flows.

The Attorney General of the Commonwealth of Massachusetts adopted regulations in June 2014 which, among other things, prohibit proprietary post-secondary institutions from engaging in practices which have the tendency or capacity to mislead a prospective student, require extensive disclosures to prospective students at least 72 hours before they sign an enrollment agreement on matters such as the program cost, graduation rates, placement rates and average time to graduation, and prohibit practices such as initiating contact with a prospective student more than twice in a seven day period and enrolling students which the institution knew or should have known are unlikely to graduate or find employment in their chosen field.

The regulations apply to students attending our one school location in Massachusetts and students enrolled in one of our fully online programs who reside in Massachusetts. Our failure to comply with the new regulations adopted by the Massachusetts Attorney General could have a material adverse effect on results of operations and cash flows.

National or regional accreditation agencies may prescribe more rigorous accreditation standards on our schools, which could have a material adverse effect on our student enrollment, revenues and cash flows.

Participation in Title IV programs requires that each of our U.S. schools be accredited by an accrediting agency recognized by the U.S. Department of Education as a reliable authority on institutional quality and integrity. The accreditation standards of the national or regional accreditation agencies that accredit our schools can and do vary, and the accreditation agencies may prescribe more rigorous standards than are currently in place.

Complying with more rigorous accreditation standards could require significant changes to the way we operate our business and increase our administrative and other costs. No assurances can be given that our schools will be able to comply with more rigorous accreditation standards in a timely manner or at all. If one of our schools does not meet its accreditation requirements, its accreditation could be limited, modified, suspended or terminated. Failure to maintain accreditation would make such school ineligible to participate in Title IV programs, which could have a material adverse effect on our student enrollment and revenues.

Further, requirements for programs offered by our schools that are accredited by national accrediting agencies with respect to retention rates, graduation rates and employment placement rates may be more difficult to satisfy if more rigorous standards are adopted. If programmatic accreditation is withdrawn or fails to be renewed for any of the individual programs at any of our schools, enrollment in such program could decline, which could have a material adverse impact on student enrollment, revenues and cash flows at that school.

Loss of or reductions in state or other financial aid programs for our students could negatively impact our revenues from students.

In fiscal 2014, students attending our institutions received approximately $42.1 million from state financial aid programs. State grant programs are generally subject to annual appropriation by the state legislature, which may lead to the state's eliminating or significantly decreasing the amount of state aid to students at our schools. Recently, several states in which we have schools have substantially decreased or eliminated the amount of grants available to students who attend proprietary post-secondary institutions. The loss of access to state grants by a significant number of students attending our schools could have a material adverse impact on our student enrollment, net revenues and cash flows from operations. The loss of state financial aid could also have an adverse impact on our ability to comply with the 90/10 Rule and result in increased student borrowing.

During fiscal 2014, students attending our institutions received approximately $195 million of financial aid from military sources, the significant majority of which was from the U.S. Department of Veterans Affairs. The U.S. Department of Veterans Affairs and the applicable state approving agency periodically review a school's compliance with applicable guidance, regulations, and laws. The scope of these compliance reviews varies. Noncompliance may result in liability for educational benefits paid by the U.S. Department of Veterans Affairs, as well as the imposition of fines, suspensions, corrective action, and potential limitation or loss of funding. The reimbursement of a material amount of education benefits paid to students and loss of access to military financial aid, including aid from the U.S. Department of Veterans Affairs, by a significant number of students attending our schools could have a material adverse impact on our student enrollment, net revenue, and cash flow from operations.

If regulators do not approve the Debt Restructuring or other transactions involving a change of control or change in our corporate structure, we may lose our ability to participate in federal student financial aid programs, which would result in declines in our student enrollment, and thereby adversely affect our results of operations and cash flows.

If we or one of our institutions experiences a change of ownership or control under the standards of applicable state agencies, accrediting agencies or the U.S. Department of Education, we or the schools governed by such agencies must seek the approval of the relevant agencies. Transactions or events that could constitute a change of control include significant acquisitions or dispositions of shares of our stock, internal restructurings, acquisition of schools from other owners, significant changes in the composition of an institution's board of directors or certain other transactions or events, several of which are beyond our control. The Debt Restructuring may constitute a change of control requiring the approval of the U.S. Department of Education, the agencies which accredit each of our 18 institutions and numerous state licensing agencies and programmatic accreditors. The failure of any of our institutions to reestablish its state authorization, accreditation or U.S. Department of Education certification following a transaction involving a change of ownership or control would result in a suspension of operating authority or suspension or loss of federal student financial aid funding, which could have a material adverse effect on our student population and revenue. Further, such a change of ownership or control could result in the imposition of growth restrictions on our institutions, including limitations on our ability to open new campuses or initiate new educational programs. Restrictions on growth such as these could have a material adverse impact on our student population and revenue and future growth plans. The potential adverse effects of a change of control also could influence future decisions by us and our shareholders regarding the sale, purchase, transfer, issuance or redemption of our stock, which could discourage bids for your shares of our common stock and could have an adverse effect on the market price of your shares.

We currently are subject to lawsuits filed under the federal False Claims Act, and in the future, government and regulatory and accrediting agencies may conduct compliance reviews, bring claims or initiate other litigation against us, which may adversely impact our licensing or accreditation status, or Title IV eligibility, and thereby adversely affect our results of operations and cash flows.

From time to time, we may be subject to program reviews, audits, investigations, claims of non-compliance or lawsuits by governmental or accrediting agencies or third parties, which may allege statutory violations, regulatory infractions or common law causes of action. For example, we are the subject of two qui tam actions filed under the federal False Claims Act, as discussed below in Item 8, "Financial Statements and Supplementary Data," Note 14, "Commitments and Contingencies." In the *Washington* case, the U.S. Department of Justice and five states have intervened under their respective False Claims Acts related to our compliance with the U.S. Department of Education's prior incentive compensation rule. The *Sobek* case alleges that we violated the U.S. Department of Education's substantial misrepresentation regulation and did not properly track student academic progress. In both cases, the relators seek to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary damages. Consequently, while we believe the claims in the *Washington* and *Sobek* cases are without merit and intend to vigorously defend ourselves, an outcome adverse to us could result in a substantial judgment against us that could have a material adverse effect on our financial condition.

We are also the subject of a subpoena from the Office of Inspector General of the U.S. Department of Education requesting policies and procedures related to Argosy University's attendance, withdrawal and return to Title IV policies during the period of July 1, 2010 through December 31, 2011 and detailed information on a number of students who enrolled in Argosy University's Bachelor's of Psychology degree program. We are cooperating with the Office of Inspector General in connection with its investigation. Additionally, the U.S. Department of Justice has notified us that we are being investigated by the U.S. Attorney's Offices for the Middle District of Tennessee and the Western District of Pennsylvania in connection with separate claims under the federal False Claims Act. Further, the U.S. Department of Education may take emergency action to suspend any of our schools' certification without advance notice if it receives reliable information that a school is violating Title IV requirements and determines that immediate action is necessary to prevent the misuse of Title IV program funds.

If the results of any such proceedings are unfavorable to us, we may lose or have limitations imposed on our accreditation, state licensing, state grant or Title IV program participation, be required to pay monetary damages or be subject to fines, penalties, injunctions or other censure that could materially and adversely affect our business. We also may be limited in our ability to open new schools or add new program offerings and may be adversely impacted by the negative publicity surrounding an investigation or lawsuit. Even if we adequately address the issues raised by an agency review or investigation or successfully defend a third-party lawsuit, we may suffer interruptions in cash flows due to, among other things, transfer from the advance funding to the “reimbursement” or “heightened cash monitoring” method of Title IV program funding, and we may have to devote significant money and management resources to address these issues, which could harm our business. We cannot predict that litigation with respect to which we are in settlement discussions will be settled and, if so, in amounts expected or within estimated accruals for loss contingencies, or if such settlements will be covered by insurance. Additionally, we may experience adverse collateral consequences, including declines in the number of students enrolling at our schools and the willingness of third parties to deal with us or our schools, as a result of any negative publicity associated with such reviews, claims or litigation.

Our regulatory environment and our reputation may be negatively influenced by the actions of other post-secondary education institutions and the current media environment.

In recent years, there have been a number of regulatory investigations and civil litigation matters targeting post-secondary education institutions, including the HELP Committee hearings on the proprietary education sector during 2010 and 2011 and the resulting report issued by the majority staff of the HELP Committee on July 30, 2012. In addition, a number of State Attorneys General have launched investigations into post-secondary institutions, including some of our schools. Moreover, the CFPB and State Attorneys General are also investigating student-lending practices at proprietary institutions, which actions are expected to continue. The CFPB has filed lawsuits against two publicly-traded companies in the education industry alleging that they engaged in predatory lending practices. Private parties have recently filed a number of significant lawsuits against post-secondary institutions alleging wrongdoing, including the misstatement of graduate job placement rates. The HELP Committee hearings, along with other recent investigations and lawsuits, have included allegation of, among other things, deceptive trade practices, false claims against the United States and non-compliance with state and U.S. Department of Education regulations. These allegations have attracted significant adverse media coverage. The intervention by the U.S. Department of Justice and five states in a qui tam case involving our alleged violation of the U.S. Department of Education’s prior incentive compensation rules has also drawn significant media attention. Allegations against the post-secondary education sectors may impact general public perceptions of educational institutions, including us, in a negative manner. Adverse media coverage regarding other educational institutions or regarding us directly could damage our reputation, reduce student demand for our programs, adversely impact our net revenues, cash flows and operating profit or result in increased regulatory scrutiny.

Government laws and regulations are evolving and unfavorable changes could harm our business.

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the post-secondary industry. Existing and future laws, regulations, and executive orders may impede our growth. These regulations, laws, and orders may cover consumer protection, taxation, privacy, data protection, marketing, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, electronic contracts and other communications and Internet services. An amendment to the U. S. Telephone Consumer Protection Act of 1991 became effective on October 16, 2013 which, among other things, requires specific prior written consent from consumers in order to place telemarketing calls to wireless phones using an automatic telephone dialing system. The Canadian Anti-Spam Law which, among other things, generally requires the senders of commercial electronic messages to first verify consent of recipients located in Canada, became effective as of July 1, 2014. We use telephonic communications with prospective students and we believe implementation of the new rules contributed to lower than anticipated application production across our organization for future academic terms due to delays in contacting prospective students in fiscal 2014. We are also subject to federal and state lobbying regulation as well as new federal disclosure requirements regarding the use of conflict minerals (commonly referred to as tantalum, tin, tungsten, and gold), which are mined from the Democratic Republic of the Congo and surrounding countries. Legislation, regulation, and executive orders in the United States as well as international laws and regulations could result in compliance costs which may reduce our revenue and income and/or result in reputational damage, as well as governmental action should our compliance measures not be deemed satisfactory.

RISKS RELATED TO OUR BUSINESS

We do not have the financial resources to repay our existing indebtedness in the event that we are unable to implement the Debt Restructuring, which requires the consent of numerous regulatory agencies.

The following chart shows our level of consolidated indebtedness at June 30, 2014 (in millions):

Revolving credit facility	$	219.9
Senior secured term loan facility, due in June 2016		728.4
Senior secured term loan facility, due in March 2018, net of discount		339.2
Senior cash pay/PIK notes due 2018, net of discount		215.9
Total indebtedness	$	1,503.4

On September 5, 2014, we entered into a Restructuring Support Agreement or "RSA" with certain of our creditors and shareholders. Under the terms of the RSA, the parties have agreed to support the Debt Restructuring pursuant to which, among other things, $150 million of revolving loans under our existing revolving credit facility will be repaid in cash at par (with such amount available for re-borrowing under a new revolving credit facility) and the remaining portion of our $1.5 billion of outstanding indebtedness will be exchanged for two first lien senior secured term loans due July 2, 2020 in the aggregate principal amount of $400 million, mandatorily convertible preferred stock, optionally convertible preferred stock and warrants for common stock.

We refer to the issuance of the new indebtedness, convertible preferred stock and warrants as “Step 1” of the Debt Restructuring and have requested assurances from the U.S. Department of Education, the agencies which accredit our 18 institutions and a number of state licensing agencies to confirm our understanding that the consummation of Step 1 will not constitute a change of control requiring regulatory approval. Our creditors who consent to the Debt Restructuring prior to the consummation of Step 1 (collectively, the “Consenting Creditors”) will also receive the right to appoint two representatives to EDMC's Board of Directors (the "EDMC Board") in connection with the consummation of Step 1. Upon the conversion of the preferred stock and if applicable, exercise of warrants issued in Step 1 into common stock, which we refer to as “Step 2”, there will be a transfer of voting control of EDMC to the Consenting Creditors, which such transfer will constitute a change in control requiring approval of the U.S. Department of Education and numerous institutional accrediting agencies, state licensing agencies and programmatic accreditors. In the event that we do not consummate the Debt Restructuring in accordance with the RSA, the Consenting Creditors may terminate the RSA and we will be required to refinance or satisfy our existing indebtedness, including our $328.3 million revolving credit facility which matures on July 2, 2015. Our compliance with the deadlines in the RSA is subject to, in the case of Step 1, a number of regulatory agencies interpreting their own regulations and responding to us on a timely basis and, in the case of Step 2, approving the transfer of voting control of EDMC to the Consenting Creditors. We will not have cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our existing indebtedness if we do not consummate the Debt Restructuring, which would have a materially adverse impact on our business, financial condition, results of operations and cash flows and may result in the sale or bankruptcy of EDMC.

In the event that we do not receive consents from 100% of our creditors, we are required under the RSA to implement Step 1 over any such objection through an intercompany sale of substantially all of our assets (the “Intercompany Sale”), which would result in non-consenting creditors having claims against a subsidiary of the Company with no assets or otherwise being impaired. The non-consenting lenders, if any, may engage in litigation in order to receive the principal and interest payments due under our existing indebtedness. If the non-consenting lenders are successful in such litigation, it would have a materially adverse effect on our financial condition and cash flows.

Our substantial amount of debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and expose us to interest rate risk to the extent of our variable rate debt.

We will continue to have a significant amount of debt after completing the Debt Restructuring. Our substantial indebtedness could have important consequences, including:

- making it more difficult for us to make payments on our indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flows from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flows to fund our operations, capital expenditures, payment of any settlements or judgments in connection with our litigation and future business opportunities;

- increasing the likelihood of our not satisfying, on a consolidated basis, the U.S. Department of Education's annual financial responsibility requirements and subjecting us to letter of credit and provisional certification requirements for the foreseeable future;
- exposing us to the risk of increased interest rates as the two term loans which mature in July 2020 that we will issue in connection with the Debt Restructuring will bear interest at variable rates;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, program development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

In addition, we and our subsidiaries may incur additional indebtedness in the future, subject to the restrictions contained in the senior credit facility and our new debt agreements. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our access to capital markets and sourcing for additional funding to expand or operate our business may be adversely impacted by continued disruptions and volatility in the credit and equity markets worldwide and credit concerns regarding the industry in general and us in particular.

The credit and equity markets of both mature and developing economies have experienced extraordinary volatility, asset erosion and uncertainty during the last several years leading to governmental intervention in the banking sector in the United States and abroad on an unprecedented scale. Until these market disruptions diminish, we may not be able to access the capital markets to obtain funding needed to expand our business. In addition, changes in the capital or other legal requirements applicable to commercial lenders may affect the availability or increase the cost of borrowing. Credit concerns regarding the proprietary post-secondary education industry as a whole and us in particular have impeded our access to capital markets and may continue to do so in the future. If we are unable to obtain needed capital on terms acceptable to us, we may have to limit our growth initiatives or take other actions that materially adversely affect our business, financial condition, results of operations and cash flows.

If we do not complete the Debt Restructuring, we will not be able to generate sufficient cash to service all of our debt obligations and may be forced to take other actions in an effort to satisfy our obligations under such indebtedness, which may not be successful.

We anticipate that both of the term loans that we will incur in connection with the Debt Restructuring will not require amortization payments prior to maturity in July 2020 and that one of these term loans will defer cash interest expense in part for the first two years. Our ability to make scheduled payments on our indebtedness, or to refinance our obligations under our debt agreements on acceptable terms, if at all, will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to the financial and business risk factors described herein, many of which are beyond our control. We cannot assure you that we will be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay the opening of new schools, acquisitions or capital expenditures, sell assets, seek to obtain additional equity capital or restructure our indebtedness.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

As of June 30, 2014, we had $1.5 billion in aggregate indebtedness outstanding. The largest portion of our debt is a senior secured credit facility, which currently consists of $1.1 billion of term loans and a $328.3 million revolving credit facility. We also have issued $203.0 million of Cash Pay/PIK Notes. At June 30, 2014, we had issued an aggregate of $307.6 million in letters of credit, the majority of which are issued to the U.S. Department of Education, which requires us to maintain one or more letters of credit due to our failure to satisfy certain regulatory financial ratios after giving effect to the Transaction. The letters of credit are issued under two cash secured letter of credit facilities in the aggregate amount of $200.0 million and the revolving credit facility.

Our senior secured credit facilities contain various covenants that limit our ability to engage in specified types of transactions. The debt which we anticipate incurring in connection with the Debt Restructuring will include similar covenants. These covenants limit certain of our subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments;
- make certain investments, including capital expenditures;
- sell certain assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

- enter into certain transactions with affiliates.

A breach of any of these covenants included in our debt agreements would result in a default under the senior secured credit agreement or the new term loans to be issued in connection with the Debt Restructuring. Upon the occurrence of an event of default under the senior credit facility or the agreements evidencing the new term loans, the lenders could elect to declare all amounts outstanding under such agreements immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. Certain of our subsidiaries have pledged or will pledge a significant portion of our assets as collateral under the debt agreements and EDMC will guaranty the debt issued in connection with the Debt Restructuring. If the lenders accelerate the repayment of borrowings, we will not have sufficient assets to repay our indebtedness. In the event we filed for bankruptcy, all of our schools could lose their eligibility to receive Title IV funds, which would have a material adverse effect on our business, financial condition and results of operations.

Our business could be adversely impacted by additional legislation and regulations addressing student loans due to the reliance of students attending our schools on loans to pay tuition and fees.

The Dodd-Frank Wall Street and Consumer Protection Act of 2010 mandated that the CFPB and the U.S. Department of Education conduct a detailed study to determine where there might be consumer protection gaps in the private student loan market. On July 19, 2012, the CFPB and the U.S. Department of Education issued a report describing what they characterized as risky practices in the private student loan market over the past ten years, among other things. According to the CFPB's estimates, outstanding student loan debt in the United States exceeded $1 trillion in 2011, with an estimated $864 billion of federal student debt and $150 billion of private student loan debt. The report found that private student loans are riskier than federally guaranteed student loans, the growth in student loans is due in part to lax underwriting standards engaged in by lenders and student borrowers are increasingly financially trapped by their inability to repay their loans.

The extent to which we extend credit to our students has increased over the last several years due to decreases in availability of private loans for students. We extend credit to students to help fund the difference between our total tuition and fees and the amount covered by other sources, including amounts awarded under Title IV programs, private loans obtained by students, and cash payments by students. Due to the relative lack of availability of private lending sources, we have increased the extension of credit to our students for periods of up to 42 months beyond graduation, which has resulted in greater amounts of defaulted receivables over time. Additional regulations adopted by the CFPB or the U.S. Department of Education restricting our student lending activity or lending activity by third parties could have a material adverse impact on our results of operations and cash flows due to our reliance on internal and third party lending programs.

If our students were unable to obtain private loans from third party lenders, our business could be adversely affected.

The education finance industry has been experiencing and may continue to experience problems that have resulted in fewer overall financing options for some of our students. Factors that could impact the general availability of loans to our students include:

- changes in overall economic conditions or overall uncertainty or disruption in capital markets, in either case causing lenders to cease making student loans, limit the volume or types of loans made or impose more stringent eligibility or underwriting standards;
- the financial condition and continued financial viability of student loan providers;
- changes in applicable laws or regulations, such as provisions of the recently-enacted HEA reauthorization that impose new disclosure and certification requirements with respect to private educational loans, that could have the effect of reducing the availability of education financing, including as a result of any lenders choosing to provide fewer loans or to stop providing loans altogether in light of increased regulation, or which could increase the costs of student loans; and
- determinations by lenders to reduce the number of loans, or to cease making loans altogether, to students attending or planning to attend certain types of schools, particularly proprietary institutions.

During fiscal 2014, we received indirectly through students attending our institutions approximately $42.9 million of proceeds from private loans as compared to approximately $58.6 million in fiscal 2013. These loans are provided pursuant to private loan programs and are made available to eligible students at our schools to fund a portion of the students' costs of education not covered by federal and state financial aid grants due to increases in tuition and the cost of living. Private loans are made to our students by institutions and are non-recourse to us and our schools. Approximately 90% of the private loans in fiscal 2014 were offered and serviced by SLM Corporation. During the last several fiscal years, adverse market conditions for consumer student loans have resulted in providers of private loans reducing the attractiveness and/or decreasing the availability of private loans to post-secondary students, including students with low credit scores who would not otherwise be eligible for credit-based private loans.

The consumer credit markets in the United States have recently suffered from increases in default rates and foreclosures on mortgages, as a result of which, fewer lenders are making student loans. Providers of federally guaranteed student loans and alternative or private student loans have also experienced recent increases in default rates. Adverse market conditions for consumer loans have resulted in providers of private loans reducing the attractiveness and/or decreasing the availability of private loans to post-secondary students, including students with low credit scores who would not otherwise be eligible for credit-based private loans. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in post-secondary education programs. Certain private lenders have also required that we pay them new or increased fees in order to provide private loans to prospective students.

While we are taking steps to address the private loan needs of our students, the inability of our students to finance their education could cause our student population to decrease, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our business has been and may in the future be adversely affected by a general economic slowdown or recession in the United States or abroad.

The United States and other industrialized countries currently are experiencing reduced economic activity, increased unemployment, substantial uncertainty about their financial services markets and, in some cases, economic recession. In addition, homeowners in the United States have experienced a significant reduction in wealth due to the decline in residential real estate values across much of the country. We believe that these events negatively impacted our results during the most recent two fiscal years and may continue to reduce the demand for our programs among students in the future, which could materially and adversely affect our business, financial condition, results of operations and cash flows. These adverse economic developments also may result in a reduction in the number of jobs available to our graduates and lower salaries being offered in connection with available employment, which, in turn, may result in declines in our placement and persistence rates. In addition, these events could adversely affect the ability or willingness of our former students to repay student loans, which could increase our student loan cohort default rate and require increased time, attention and resources to manage these defaults. Further, the inability of students to pay their tuition and fees in cash has, along with other factors, resulted in a significant increase to our 90/10 rate over the last several fiscal years.

We recognized impairment charges during each of the last three fiscal years and may recognize additional such charges in the future, which could adversely affect our results of operation and financial condition.

We evaluate property and equipment, goodwill and other intangible assets for impairment on at least an annual basis. We recognize an impairment charge if the carrying value of our property and equipment, goodwill or other intangible assets exceed their estimated fair value. In assessing fair value, we rely primarily on a discounted cash flow analysis, as well as other generally accepted valuation methodologies. These analyses rely on the judgments and estimates of management, which involve inherent uncertainties. The estimated fair value of our property and equipment, goodwill and other intangible assets may be adversely affected by a number of factors, including changes in the regulatory environment in which we operate, the effects of a general economic slowdown and other unanticipated events and circumstances. In particular, should the Company need to take additional actions not currently foreseen to comply with current or future regulations, the assumptions used to calculate the fair value of property and equipment, goodwill and other intangible assets, including estimates of future revenues and cash flows, could be negatively affected and could result in an impairment of our property and equipment, goodwill or other intangible assets. If we are required to recognize an impairment charge, it would be recorded as an operating expense in the period in which the carrying value exceeds the fair value.

We recorded goodwill impairment charges of $1.5 billion, $270.9 million and $433.7 million in fiscal 2012, 2013, and 2014 respectively. As of June 30, 2014, we had approximately $0.9 billion of net property and equipment, goodwill and other intangible assets. While we currently believe that the fair value of our property and equipment, goodwill and other intangible assets exceeds its carrying value, changes in our estimates and assumptions regarding the future performance of our business could result in further impairment charges, which may have a material adverse effect on our results of operations.

We may have difficulty opening additional new schools and growing our online academic programs, and we may be forced to close schools if we do not improve our operating results.

Though we did not open any new schools in fiscal 2014, historically a significant percentage of our growth has resulted from opening new locations of our existing institutions. Establishing new schools poses unique challenges and requires us to make investments in management, capital expenditures, marketing expenses and other resources. When opening a new school, we are required to obtain appropriate state or provincial and accrediting agency approvals. In addition, to be eligible for federal student financial aid programs, a school has to be certified by the U.S. Department of Education. Further, our debt agreements include limitations on the amount of capital expenditures we may make on an annual basis. We have experienced significant decreases in the number of new students attending our schools over the last several fiscal years and announced our intention to close one school during fiscal 2014. Though we have no current plans to close any additional schools, we may be forced to close additional schools if we are unable to improve our results of operations. Our failure to effectively manage the operations of our existing or newly established schools or service areas, or any diversion of management's attention from our core school operating activities, could harm our business.

As of June 30, 2014, we offer fully-online programs at The Art Institute of Pittsburgh, Argosy University and South University. We plan to continue to introduce new online programs at these schools in the future. The success of any new online programs and classes depends in part on our ability to expand the content of our programs, develop new programs in a cost-effective manner and meet the needs of our students in a timely manner. The expansion of our existing online programs, the creation of new online classes and the development of new fully-online programs may not be accepted by students or the online education market for many reasons, including as a result of the expected increased competition in the online education market or because of any problems with the performance or reliability of our online program infrastructure. In addition, a general decline in Internet use for any reason, including due to security or privacy concerns, the cost of Internet service or changes in government regulation of Internet use may result in less demand for online educational services, in which case we may not be able to grow our online programs.

We may not be able to grow our business if we are unable to improve the content of our existing academic programs or develop new programs on a timely basis and in a cost-effective manner.

We continually seek to improve the content of our existing academic programs and develop new programs in order to meet changing market needs. Revisions to our existing academic programs and the development of new programs may not be accepted by existing or prospective students or employers in all instances. If we cannot respond effectively to market changes, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require or as quickly as our competitors are able to introduce competing programs. Our efforts to introduce a new academic program may be conditioned or delayed by requirements to obtain federal, state and accrediting agency approvals. The development of new programs and classes, both conventional and online, is subject to requirements and limitations imposed by the U.S. Department of Education, state licensing agencies and the relevant accrediting bodies. The imposition of restrictions on the initiation of new educational programs by any of our regulatory agencies may delay such expansion plans. If we do not respond adequately to changes in market requirements, our ability to attract and retain students could be impaired and our financial results could suffer.

Establishing new academic programs or modifying existing academic programs also may require us to make investments in specialized personnel and capital expenditures, increase marketing efforts and reallocate resources away from other uses. We may have limited experience with the subject matter of new programs and may need to modify our systems and strategy. If we are unable to increase the number of students, offer new programs in a cost-effective manner or otherwise manage effectively the operations of newly established academic programs, our results of operations and financial condition could be adversely affected.

Our marketing programs may not be effective in attracting prospective students, current students or potential employers of our graduates.

In order to maintain and increase our revenues and margins, we must continue to attract new students in a cost-effective manner. Marketing expenses represented approximately 11.1% and 10.2% of our net revenues for fiscal 2014 and 2013, respectively. We have experienced significant decreases in the number of new students attending our schools over the last several fiscal years. If we are unable to successfully market our schools and programs, our ability to attract and enroll new students could be adversely impacted and, consequently, our financial performance could suffer. We use marketing tools such as the Internet, radio, television and print media advertising to promote our schools and programs. Our representatives also make presentations at high schools. If we are unable to utilize these marketing methods in a cost-effective manner or if our other costs limit the amount of funds we can contribute to advertising, our profitability and revenue may suffer. Additionally, we rely on the general reputation of our schools and referrals from current students, alumni and employers as a source of new students. Among the factors that could prevent us from successfully marketing and advertising our schools and programs are the failure of our marketing tools and strategy to appeal to prospective students or current student and/or employer dissatisfaction with our program offerings or results and diminished access to high school campuses.

A decline in the overall growth of enrollment in post-secondary institutions could cause us to experience lower enrollment at our schools, which would negatively impact our future growth.

According to the U.S. Department of Education's February 2014 report, "Projections of Education Statistics to 2022," and the Advance Release of Selected 2013 Digest of Education Statistics Tables, enrollment in degree-granting, post-secondary institutions is projected to grow approximately 16% over the ten-year period ending in the fall of 2022 to approximately 23.9 million students. This growth compares with a 24% increase reported in the prior ten-year period ended in fall of 2012, when enrollment increased from 16.6 million students in 2002 to approximately 20.6 million students in 2012. While enrollment growth in the ten-year period ended 2012 was accompanied by an approximate 19% increase in high school graduates from 2.9 million students in 2002 to 3.5 million students in 2012, the U.S. Department of Education is projecting a decline of approximately 3% in the number of high school graduates through 2022. Further, according to information published by the National Student Clearinghouse, enrollment in post-secondary institutions decreased by 0.8% from the Spring of 2013 to the Spring of 2014, and enrollment in four-year proprietary institutions decreased by 4.9% during the same time period.

Failure to keep pace with changing market needs and technology could harm our ability to attract students.

The success of our schools depends to a large extent on the willingness of prospective employers to employ our students upon graduation. Increasingly, employers demand that their new employees possess appropriate technological skills and also appropriate “soft” skills, such as communication, critical thinking and teamwork skills. These skills can evolve rapidly in a changing economic and technological environment. Accordingly, it is important that our educational programs evolve in response to those economic and technological changes. The expansion of existing academic programs and the development of new programs may not be accepted by current or prospective students or the employers of our graduates. Even if our schools are able to develop acceptable new programs, our schools may not be able to begin offering those new programs as quickly as required by prospective employers or as quickly as our competitors offer similar programs. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could suffer and our results of operations and cash flows could be adversely affected.

Capacity constraints or system disruptions to our online computer networks could have a material adverse effect on our ability to attract and retain students.

The performance and reliability of the program infrastructure of our schools’ online operations is critical to the reputation of these campuses and our ability to attract and retain students. Any computer system error or failure, or a sudden and significant increase in traffic on our computer networks that host our schools’ online operations, may result in the unavailability of our schools’ online operations’ computer networks. In addition, any significant failure of our computer networks could disrupt our on campus operations. Individual, sustained or repeated occurrences could significantly damage the reputation of our schools’ online operations and result in a loss of potential or existing students. Additionally, our schools’ online computer systems and operations are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Any interruption to our schools’ online computer systems or operations could have a material adverse effect on the ability of our schools’ online operations to attract and retain students.

The personal information that we collect and store may be vulnerable to misuse, breach, theft or loss that could adversely affect our reputation and operations, and regulation regarding personal information is increasing.

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. Our schools collect, use and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, health data, personal and family financial data and credit card numbers. We are exposed to risk regarding the unauthorized use and disclosure of such information, including but not limited to risks associated with compliance with the U. S. Telephone Consumer Protection Act which, effective October 2013, requires prior express written consent to use of automatic telephone dialing systems and the Canadian Anti-Spam Law which, effective July 2014, requires the senders of commercial electronic messages to first verify consent of recipients located in Canada. We also collect and maintain personal information of our employees in the ordinary course of our business. Our computer networks and the networks of certain of our vendors that hold and manage confidential information on our behalf may be vulnerable to unauthorized access, cyber computer hackers, computer viruses and other security threats. Confidential information also may become available to third parties inadvertently when we integrate or convert computer networks into our network following an acquisition of a school or in connection with upgrades from time to time.

Due to the sensitive nature of the information contained on our networks, such as students' grades, our networks may be targeted by hackers. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or cyber-security attacks or to alleviate problems caused by these breaches. A major breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in further regulation and oversight by federal and state authorities and increased costs of compliance.

We may not be able to retain our key personnel or hire and retain additional personnel needed for us to sustain and grow our business as planned.

Our success depends, in large part, upon our ability to attract and retain highly qualified faculty, school presidents and administrators and corporate management. We may have difficulty locating and hiring qualified personnel, and retaining such personnel once hired. In addition, key personnel may leave and subsequently compete against us. The loss of the services of any of our key personnel, many of whom are not party to employment agreements with us, or our failure to attract and retain other qualified and experienced personnel on acceptable terms could impair our ability to successfully sustain and grow our business, which could have a material adverse effect on our results of operations.

Our inability to operate one or more of our schools or locations due to a natural disaster, terrorist act or widespread epidemic, or to restore a damaged school or location to its prior operational level could materially hurt our operating results and cash flows.

A number of our schools are located in Florida and elsewhere in the southeastern United States in areas prone to hurricane damage, which may be substantial. We also have a number of schools located in California in areas vulnerable to earthquakes. One or more of these schools may be unable to operate for an extended period of time in the event of a hurricane, earthquake or other natural disaster which does substantial damage to the area in which a school is located. In addition, we may not be in a position to devote sufficient resources to a damaged school in order for it to re-open in a timely fashion or at the same level of operation as existed prior to the damage. Further, a regional or national outbreak of influenza or other illness easily spread by human contact could cause us to close one or more of our schools for an extended period of time. The failure of one or more of our schools to operate for a substantial period of time could have a material adverse effect on our results of operations and cash flows.

We have a significant concentration of admissions representatives for our fully-online schools in two geographically separate locations. A natural disaster or terrorist act which affected one of these locations could result in our inability to contact prospective students for our fully-online programs for an extended period of time, which would result in a significantly lower number of new students enrolling in our programs.

The breach of the physical security at one of our school locations could harm our business.

There have been a number of shooting and other incidents involving violence at post-secondary, secondary and primary school locations over the last several years. We have 110 primary school locations and multiple housing facilities across the United States and in Canada. Though we train our employees on how to respond to crises, no assurances can be given that one of these incidents won't occur at one of school or housing locations. An incident involving violence resulting from a breach of the physical security at one of our school or housing locations and harm to one or more of our students or employees could expose us to adverse publicity along with significant litigation and claims from third parties, which could have a material adverse effect on our reputation, business, prospects, financial condition, cash flows, and results of operations.

The actions, errors, or instances of regulatory noncompliance of third party vendors upon which our institutions rely may negatively impact our business.

We engage third party vendors to provide, among other services, marketing and recruiting activities. Although we require that the work done by such third parties be of high quality and in compliance with applicable regulations, we may be ultimately responsible for any errors or instances of regulatory noncompliance, some of which could adversely impact our reputation, business, prospects, financial condition, cash flows, and results of operations.

We operate in a highly competitive industry, and competitors with greater resources could harm our business.

The post-secondary education market is highly fragmented and competitive. Our schools compete for students with traditional public and private two-year and four-year colleges and universities and other proprietary providers, including those that offer online learning programs. Related to this, a substantial proportion of traditional colleges and universities and community colleges now offer some form of distance learning or online education programs, including programs geared towards the needs of working learners. As a result, we face increased competition for students, including from colleges with well-established brand names. In addition, we face competition from various emerging nontraditional, credit-bearing and noncredit-bearing education programs, offered by both proprietary and not-for-profit providers. These include massive open online courses (MOOCs) offered worldwide without charge by traditional educational institutions and other direct-to-consumer education services, which some educational institutions are now considering for credit. Public institutions receive substantial government subsidies, and public and private institutions have access to government and foundation grants, tax-deductible contributions and other financial resources generally not available to proprietary providers. Accordingly, public and private institutions may have instructional and support resources superior to those in the proprietary sector, and public institutions can offer substantially lower tuition prices. Some of our competitors in both the public and private sectors also have substantially greater financial and other resources than we do.

If the Debt Restructuring is consummated, our existing shareholders will suffer substantial dilution.

Under the terms of the Debt Restructuring, we will issue preferred stock to our creditors that, without giving effect to dilution from warrants to be issued and a management incentive plan to be implemented in connection with the Debt

Restructuring, is convertible into 96% of our outstanding common stock. Accordingly, current stockholders will suffer substantial dilution, which will have a materially adverse impact on the market value of a share of common stock.

If we expand in the future into new markets outside the United States, we would be subject to risks inherent in non-domestic operations.

If we acquire or establish schools in new markets outside the United States, we will face risks that are inherent in non-domestic operations, including the complexity of operations across borders, currency exchange rate fluctuations, monetary policy risks, such as inflation, hyperinflation and deflation, and potential political and economic instability in the countries into which we expand.

Private equity funds affiliated with the Sponsors own the majority of our voting stock, which, if they act together, allows them to control substantially all matters requiring shareholder approval, and a small number of our shareholders, acting in concert, could effect a "going-private" transaction.

Collectively, private equity funds affiliated with Providence Equity Partners, Goldman Sachs Capital Partners and Leeds Equity Partners (collectively, the "Sponsors") beneficially owned approximately 84% of our outstanding common stock at June 30, 2014. In addition, pursuant to a Shareholders Agreement entered into among the Sponsors and certain of our shareholders (the "Shareholders Agreement"), the Sponsors have the right to appoint five directors to the EDMC Board. Currently, four of the EDMC Board's ten directors are representatives of private equity funds affiliated with the Sponsors and one of the Sponsors has the right to appoint an additional director to the EDMC Board. Certain private equity funds affiliated with Providence Equity Partners and certain private equity funds affiliated with Goldman Sachs Capital Partners each have the right to appoint two directors if such Sponsor owns 10% or more of our common stock and each of the Sponsors have the right to appoint one director if such Sponsor owns 2% or more of our common stock. As a result, these private equity funds, should they vote their respective shares in concert with each other, have significant influence over our decision to enter into any corporate transaction and have the ability to prevent any transaction that requires the approval of shareholders, regardless of whether or not other shareholders believe that such transaction is in their own best interests. Such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our shareholders. Under Pennsylvania law, the state of incorporation of EDMC, the Sponsors could decide to effect a "short form" merger involving EDMC, without the need for approval of the EDMC Board or any other shareholders, which would result in the shares held by the public being cashed out, and EDMC no longer being publicly traded (a "going-private transaction"). Certain of these private equity funds from time to time consider the possibilities for effecting a going-private transaction, which they might decide to effect in the near term or thereafter, although there is no guarantee that such a transaction will be proposed, or if proposed, consummated or, should it be consummated, the timing or price thereof. Any decision by the Sponsors to approve, disapprove or undertake a transaction affecting EDMC's common stock could have a material effect on the value of EDMC's outstanding shares.

Additionally, the Sponsors are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. As long as private equity funds affiliated with the Sponsors collectively continue to own, directly or indirectly, a significant amount of the outstanding shares of our common stock, the Sponsors will collectively continue to be able to strongly influence or effectively control our decisions.

We qualify for and avail ourselves of exemptions from certain corporate governance requirements for companies whose stock is quoted on The NASDAQ Stock Market LLC ("NASDAQ") that provide protection to shareholders of other companies.

The parties to the Shareholders Agreement collectively own more than 50% of the total voting power of our common stock, and we therefore use certain "controlled company" exemptions under NASDAQ's corporate governance listing standards that free us from the obligation to comply with certain NASDAQ corporate governance requirements, including the requirements:

- that a majority of EDMC's Board consists of independent directors;
- that the compensation of executive officers be determined, or recommended to EDMC's Board for determination, either by (a) a majority of the independent directors or (b) a compensation committee comprised solely of independent directors; and
- that director nominees be selected, or recommended for EDMC's Board selection, either by (a) a majority of the independent directors or (b) a nominations committee comprised solely of independent directors.

As a result of our use of these exemptions, owners of our common stock do not have the same protection afforded to shareholders of companies that are subject to all of NASDAQ's corporate governance requirements. In the event that we cease to be eligible to utilize "controlled company" exemptions under NASDAQ's corporate governance listing standards, we will have a transition period during which we must achieve compliance with the requirements described above.

Provisions in EDMC's charter documents and the Pennsylvania Business Corporation Law could make it more difficult for a third party to acquire EDMC and could discourage a takeover and adversely affect existing shareholders.

Provisions in EDMC's charter documents could discourage potential acquisition proposals or make it more difficult for a third party to acquire control of EDMC, even if doing so might be beneficial to our shareholders. EDMC's articles of incorporation and bylaws provide for various procedural and other requirements that could make it more difficult for shareholders to effect certain corporate actions. For example, EDMC's articles of incorporation authorize EDMC's Board to issue up to 20.0 million shares of preferred stock and to determine the powers, preferences, privileges, rights, including voting rights, qualifications, limitations and restrictions on those shares, without any further vote or action by our shareholders. The rights of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Additional provisions that could make it more difficult for shareholders to effect certain corporate actions include the following:

- EDMC's articles of incorporation prohibit cumulative voting in the election of directors;
- once the private equity funds affiliated with the Sponsors and certain of our other institutional investors collectively cease to beneficially own 50% or more of our outstanding common stock, EDMC's articles of incorporation and bylaws will not (i) permit shareholder action without a meeting by consent, except for unanimous written consent, (ii) permit shareholders to call or to require the EDMC Board to call a special meeting or (iii) permit shareholder removal of directors without assigning any cause; and
- EDMC's bylaws provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must comply with advance notice procedures.

Our shareholders may remove directors only for cause; provided that as long as our shareholders have the right to act by partial written consent, directors may be removed from office by partial written consent without assigning any cause. These and other provisions of the Pennsylvania Business Corporation Law (the "PBCL") and EDMC's articles of incorporation and bylaws may discourage acquisition proposals, make it more difficult or expensive for a third party to acquire a majority of our outstanding common stock or delay, prevent or deter a merger, acquisition, tender offer or proxy contest, which may negatively affect our stock price.

We currently do not intend to pay dividends on our common stock and, consequently, investors' only opportunity to achieve a return on their investment is if the price of our common stock appreciates.

We currently do not expect to pay dividends on shares of our common stock. The terms of our senior secured credit facility and indenture limit our ability to pay cash dividends in certain circumstances. Furthermore, if we are in default under our credit facility or indenture, our ability to pay cash dividends will be limited in certain circumstances in the absence of a waiver of that default or an amendment to the facilities or indenture. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries, including the restrictions under our senior secured credit facilities and indenture. Subject to these restrictions, the payment of cash dividends in the future, if any, will be at the discretion of the EDMC Board and will depend upon such factors as earnings levels, capital requirements, our overall financial condition and any other factors deemed relevant by the EDMC Board. Consequently, the only opportunity for investors to achieve a return on their investment in the Company is if the market price of our common stock appreciates.

EDMC relies on dividends, distributions and other payments, advances and transfers of funds from its operating subsidiaries to meet its debt service and other obligations.

EDMC, our parent corporation, conducts all of its operations through certain of its subsidiaries, and at June 30, 2014 it had no significant assets other than cash of approximately $50.7 million and the capital stock of its respective subsidiaries. As a result, EDMC relies on dividends and other payments or distributions from its operating subsidiaries to meet any existing or future debt service and other obligations. The ability of its operating subsidiaries to pay dividends or to make distributions or other payments to EDMC depends on their respective operating results and may be restricted by, among other things, the laws of their respective jurisdictions of organization, regulatory requirements, agreements entered into by those operating subsidiaries and the covenants of any existing or future outstanding indebtedness that EDMC or its subsidiaries may incur.

We experience seasonal fluctuations in our results of operations which may result in similar fluctuations in the trading price of our common stock.

Historically, our quarterly revenues and income have fluctuated primarily as a result of the pattern of student enrollments at our schools. The number of students enrolled at our schools typically is greatest in the second quarter of our fiscal year, when the largest number of recent high school and college graduates typically begin post-secondary education programs. Student vacations generally cause our student enrollments to be at their lowest during our first fiscal quarter. Because a significant portion of our expenses do not vary proportionately with the fluctuations in our revenue, our results in a particular fiscal quarter may not indicate accurately the results we will achieve in a subsequent quarter or for the full fiscal year. These fluctuations in our operating results may result in corresponding volatility in the market price for our common stock. Our liquidity needs also fluctuate during the year, with our fourth fiscal quarter being our lowest point.

The market price of our common stock may continue to be volatile due to a number of factors, including our low float, which could cause the value of an investment in our common stock to decline, could adversely affect your ability to liquidate your investment or could subject us to securities class action litigation.

Our stock price has declined significantly since January 2012 and may continue to be volatile due to, among other factors, our low float, which is the number of shares of the Company's common stock that are outstanding and available for trading by the public. Our relatively low float is a consequence of the concentrated holdings of certain of our principal shareholders, as well as our repurchases of common stock under the stock repurchase program that the EDMC Board adopted in 2010. The resulting thin trading market for our stock may cause the market price for our common stock to fluctuate significantly more than the stock market as a whole, and without a large float, our common stock is less liquid than the stock of companies with broader public ownership. In other words, the Company's stock price may change dramatically when buyers seeking to purchase shares of the Company's common stock exceed the shares available on the market, or when there are no buyers to purchase shares of the Company's common stock when shareholders are trying to sell their shares (including optionees exercising in-the-money stock options), and in the absence of an active public trading market, you may be unable to liquidate your investment in the Company at the time that you wish at a price that you consider satisfactory. The lack of an active market may also reduce the fair value of your shares and may impair our ability to raise capital to continue to fund operations by selling shares or to acquire other companies by using our shares as consideration.

Further, a going-private transaction or other event that would result in the Company no longer being publicly traded on a national securities exchange registered with the SEC could eliminate an active public trading market and have the same effect discussed above regarding your inability to liquidate your investment in the Company, or reduce the fair value of your shares and may impair our ability to raise capital.

Other specific factors that could cause the market price of our common stock to rise and fall include but are not limited to the following:

- variations in our or our competitors' actual or anticipated operating results or any failure on our part to otherwise meet the expectations of the investment community;
- our growth rates or those of our competitors;
- our introduction, or introduction by our competitors, of new schools, new programs, concepts, or pricing policies;
- recruitment or departure of key personnel;
- changes in the estimates of our operating performance or changes in recommendations by any securities analyst who follows our stock;
- changes in the conditions in the education industry, the financial markets or the economy as a whole;
- substantial sales of our common stock;
- failure of any of our schools to secure or maintain accreditation or eligibility to participate in Title IV programs;
- announcements of regulatory or other investigations, adverse regulatory action by the U.S. Department of Education, state agencies or accrediting agencies, regulatory scrutiny of our operations or the operations of our competitors or lawsuits filed against us or our competitors; and
- changes in accounting principles.

Furthermore, overall market volatility, as well as general economic, market or potential conditions, could reduce the market price of our common stock in spite of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation often has been brought against that company. Due to the potential volatility of our stock price, we therefore may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

We are in the process of, and whether or not the Debt Restructuring is completed, intend to continue, considering voluntarily delisting our common stock from NASDAQ and suspending our reporting obligations under the Securities Exchange Act of 1934.

Our directors and management are in the process of, and whether or not the Debt Restructuring is completed, intend to continue, exploring the advantages and disadvantages to us and our shareholders of our voluntarily delisting our common stock from NASDAQ and suspending our reporting obligations under the Securities Exchange Act of 1934. No final decisions have been made in this regard, including as to the timing thereof. If our common stock is delisted from NASDAQ, we anticipate that the common stock would be traded over-the-counter. If we voluntarily delist the common stock from NASDAQ, there can be no assurance that an active trading market will continue to exist. If an active market is not maintained, the price and liquidity of the common stock may be adversely affected. Further, upon suspending our reporting obligations under the Securities Exchange Act of 1934, we would cease filing reports with the SEC, which will result in significantly less information about the Company being publicly available, which could adversely affect the price and liquidity of our common stock. Moreover, even if we do not decide to voluntarily delist our common stock, we might fail to meet NASDAQ's continued listing requirements, in which case, subject to our right to cure, our common stock may be delisted by NASDAQ. NASDAQ would have the right to delist our common stock if, among other things, our common stock closed with a bid price below $1.00 for 30 consecutive business days, and during the 180 day period after we received notification of such deficiency, our common stock's bid price did not equal or exceed $1.00 for at least 10 consecutive business days.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We did not receive written comments from the SEC staff more than 180 days prior to the end of fiscal 2014 that remain unresolved.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Pittsburgh, Pennsylvania. At June 30, 2014, our schools were primarily located in major metropolitan areas in 32 states and one Canadian province. Typically, our schools occupy an entire building or several floors or portions of floors in a building often located in office or commercial buildings.

We currently lease most of our administrative and educational facilities under operating lease arrangements. We own buildings occupied by the Brown Mackie College in Lenexa, Kansas and Argosy University Sarasota (which was sold in August 2014 as part of a sale-leaseback transaction). During the last two fiscal years, we sold and leased back a student housing facility in Fort Lauderdale, Florida and buildings occupied by The Art Institute of Pittsburgh, The Art Institutes of Colorado and Seattle, Western State College of Law in Fullerton, California, Argosy University in Eagan, Minnesota and most recently Argosy University Sarasota. Refer to Item 8, "Financial Statements and Supplementary Data," Note 4, "Property and Equipment" and Note 18, "Subsequent Events" for more information on these sale leaseback transactions. At June 30, 2014, we leased approximately 6.9 million square feet of office and educational facilities and owned less than 0.1 million square feet of real property.

Many of our facility leases contain provisions prohibiting a change in control of the lessee or permitting the landlord to terminate the lease upon a change in control of the lessee. Based primarily upon our belief that (1) we maintain good relationships with the substantial majority of our landlords, (2) most of our leases are at market rates and (3) we have historically been able to secure suitable leased property at market rates when needed, we believe that these provisions will not, individually or in the aggregate, have a material adverse effect on our business or financial position.

ITEM 3. LEGAL PROCEEDINGS

Qui Tam Matters

Washington v. Education Management Corporation. On May 3, 2011, a *qui tam* action captioned *United States of America, and the States of California, Florida, Illinois, Indiana, Massachusetts, Minnesota, Montana, New Jersey, New Mexico, New York and Tennessee, and the District of Columbia, each ex rel. Lynntoya Washington and Michael T. Mahoney v. Education Management Corporation, et al.* ("Washington") filed under the federal False Claims Act in April 2007 was unsealed due to the U.S. Department of Justice's decision to intervene in the case. Five of the states listed on the case caption joined the case based on *qui tam* actions filed under their respective False Claims Acts. The Court granted the Company's motion to dismiss the District of Columbia from the case and denied the Commonwealth of Kentucky's motion to intervene in the case under its consumer protection laws.

The case, which is pending in federal district court in the Western District of Pennsylvania, relates to whether the Company's compensation plans for admission representatives violated the HEA and U.S. Department of Education regulations prohibiting an institution participating in Title IV programs from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments to any person or entity engaged in any student recruitment or admissions activity during the period of July 1, 2003 through June 30, 2011. The complaint was initially filed by a former admissions representative at The Art Institute of Pittsburgh Online Division and a former director of training at EDMC Online Higher Education and asserts the relators are entitled to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary penalties. The complaint does not specify the amount of damages sought but claims that the Company and/or students attending the Company's schools received over $11 billion in funds from participation in Title IV programs and state financial aid programs during the period of alleged wrongdoing.

On May 11, 2012, the Court ruled on the Company's motion to dismiss the case for failure to state a claim upon which relief can be granted, dismissing the claims that the design of the Company's compensation plan for admissions representatives, which included both quantitative and quality factors, violated the incentive compensation rule and allowing common law claims and the allegations that the plan as implemented violated the rule to continue to discovery. On May 8, 2014, the Court denied the Company's motion for summary judgment based on a statistical analysis of the salary adjustments for admissions representatives under the compensation plan. The Company believes the case to be without merit and intends to vigorously defend itself. From time to time, the Company engages in settlement discussions with respect to this case. At this time, the Company is unable to estimate the amount of any reasonably possible loss related to this matter because of the status of current settlement negotiations and the fact that the Company is only willing to settle the case if a settlement can be negotiated in an amount that the Company believes is reasonable. There can be no assurance that the settlement conversations will lead to a settlement acceptable to all parties and approved by all parties. There can also be no assurance that any settlement will be within amounts currently accrued or be covered by insurance or not be material to the Company.

In July 2014, the Company's excess insurer filed a declaratory judgment action in federal district court in the Western District of Pennsylvania seeking a ruling that it has no liability to provide coverage to us in connection with Washington and the other qui tam litigation matters. Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point.

Sobek v. Education Management Corporation. On March 13, 2012, a *qui tam* action captioned *United States of America, ex rel. Jason Sobek v. Education Management Corporation, et al*. filed under the federal False Claims Act on January 28, 2010 was unsealed after the U.S. Department of Justice declined to intervene in the case. The case, which is pending in the federal district court in the Western District of Pennsylvania, alleges that the defendants violated the U.S. Department of Education's regulation prohibiting institutions from making substantial misrepresentations to prospective students, did not adequately track student academic progress and violated the U.S. Department of Education's prohibition on the payment of incentive compensation to admissions representatives. The complaint was filed by a former project associate director of admissions at EDMC Online Higher Education who worked for South University and asserts the relator is entitled to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary penalties. The complaint does not specify the amount of damages sought but claims that the Company's institutions were ineligible to participate in Title IV programs during the period of alleged wrongdoing.

In August 2013, the parties to the action, along with the U.S. Department of Justice, participated in a private mediation in which the relator and defendants reached an agreement in principle regarding the financial terms of a potential settlement. The agreement between the parties remains subject to approval by the U.S. Department of Justice. Significant terms remain to be negotiated, and there is no certainty that a final agreement will be reached. The settlement amount agreed to by the parties under the terms of the agreement in principle would be paid by the Company's insurer and the Company would pay an immaterial amount of attorneys' fees incurred by the relator. The ultimate dismissal of the action, should a final settlement be reached, is subject to the Court's approval.

In the course of settlement discussions regarding the *Sobek* matter, the U.S. Department of Justice informed the Company that it is the subject of an investigation related to a claim under the federal false claims act by the U. S. Attorney’s Office for the Middle District of Tennessee. Additionally, in March 2014 the U.S. Department of Justice informed the Company that it is the subject of an investigation related to a claim under the federal false claims act by the U.S. Attorney's Office for the Western District of Pennsylvania. The Company plans to cooperate with the U.S. Department of Justice with regard to these matters. However, the Company cannot predict the eventual scope, duration or outcome of the investigations at this time nor can it estimate any amount of a reasonably possible loss related to these investigations because of their status.

Shareholder Derivative Lawsuits

On May 21, 2012, a shareholder derivative class action captioned *Oklahoma Law Enforcement Retirement System v. Todd S. Nelson, et al.* was filed against the directors of the Company in state court located in Pittsburgh, PA. The Company is named as a nominal defendant in the case. The complaint alleges that the defendants violated their fiduciary obligations to the Company's shareholders due to the Company's violation of the U.S. Department of Education's prohibition on paying incentive compensation to admissions representatives, engaging in improper recruiting tactics in violation of Title IV of the HEA and accrediting agency standards, improper classification of job placement data for graduates of its schools and failure to satisfy the U.S. Department of Education's financial responsibility standards. The Company previously received two demand letters from the plaintiff which were investigated by a Special Litigation Committee of the EDMC Board and found to be without merit.

The Company and the director defendants filed a motion to dismiss the case with prejudice on August 13, 2012. In response, the plaintiffs filed an amended complaint making substantially the same allegations as the initial complaint on September 27, 2012. The Company and the director defendants filed a motion to dismiss the amended complaint on October 17, 2012. On July 16, 2013, the Court dismissed the claims that the Company engaged in improper recruiting tactics and mismanaged the Company's financial well-being with prejudice and found that the Special Litigation Committee could conduct a supplemental investigation of the plaintiff's claims related to incentive compensation paid to admissions representatives and graduate placement statistics. The Special Litigation Committee filed supplemental reports on October 15, 2013, January 9, 2014 and February 28, 2014, finding no support for the incentive compensation and graduate placement statistic claims. The Court held a hearing on the defendants' supplemental motion to dismiss the case on January 29, 2014 and granted the plaintiff’s request for limited discovery on June 11, 2014.

On August 3, 2012, a shareholder derivative class action captioned *Stephen Bushansky v. Todd S. Nelson, et al.* was filed against certain of the directors of the Company in federal district court in the Western District of Pennsylvania. The Company is named as a nominal defendant in the case. The complaint alleges that the defendants violated their fiduciary obligations to the Company's shareholders due to the Company's use of improper recruiting, enrollment admission and financial aid practices and violation of the U.S. Department of Education's prohibition on the payment of incentive compensation to admissions representatives. The Company previously received a demand letter from the plaintiff which was investigated by a Special Litigation Committee of the EDMC Board and found to be without merit. The Company believes that the claims set forth in the complaint are without merit and intends to vigorously defend itself. The Company and the named director defendants filed a motion to stay the litigation pending the resolution of the *Oklahoma Law Enforcement Retirement System* shareholder derivative case or, alternatively, dismiss the case on October 19, 2012. On August 5, 2013, the Court granted the Company's motion to stay the case in light of the ruling on the defendants' motion to dismiss the *Oklahoma Law Enforcement Retirement System* case.

Because of the many questions of fact and law that may arise, the outcome of these legal proceedings is uncertain at this point. Based on the information presently available, the Company cannot reasonably estimate a range of loss for these actions and, accordingly, has not accrued any liability associated with these actions.

Securities Class Action

On September 19, 2014, a securities class action complaint captioned *Robb v. Education Management Corporation*, et. al was filed against the Company and certain of its executive officers. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act of 1934 and rule 10b-5 promulgated thereunder due to allegedly materially false and misleading statements made by the Company during the period of August 8, 2012 through September 16, 2014 in connection with the Company's filings with the SEC, press releases and other statements and documents. 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 the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

OIG Subpoena

On May 24, 2013, the Company received a subpoena from the Office of Inspector General of the U.S. Department of Education requesting policies and procedures related to Argosy University's attendance, withdrawal and return to Title IV policies during the period of July 1, 2010 through December 31, 2011 and detailed information on a number of students who enrolled in Argosy University's Bachelor's of Psychology degree program. The Company plans to cooperate with the Office of Inspector General in connection with its investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

State Attorneys General Investigations

The Company received inquiries from 13 states in January 2014 and an additional state in March 2014 regarding the Company's business practices. The Attorney General of the Commonwealth of Pennsylvania informed the Company that it will serve as the point of contact for the inquiries related to the Company. The inquiries 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. Several other companies in the proprietary education industry have disclosed that they received similar inquiries. The Company has cooperated with the states involved and, from time to time, engaged in preliminary discussions designed to lead to a settlement of the investigation. However, the Company is unable to estimate the amount of any reasonably possible loss related to this matter or the eventual scope, duration or outcome of the investigation due to the nature and status of the preliminary discussions.

In January 2013, The New England Institute of Art received a civil investigative demand from the Commonwealth of Massachusetts Attorney General requesting information for the period from January 1, 2010 to the present pursuant to an investigation of practices by the school in connection with marketing and advertising job placement and student outcomes, the recruitment of students and the financing of education. The Company previously responded to a similar request that The New England Institute of Art received in June 2007 and intends to continue to cooperate with the Attorney General in connection with its investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In August 2011, the Company received a subpoena from the Attorney General of the State of New York requesting documents and detailed information for the time period of January 1, 2000 through the present. The Art Institute of New York City is the Company's only school located in New York though the subpoena also addresses fully-online students who reside in the State. The subpoena is primarily related to the Company's compensation of admissions representatives and recruiting activities. The relators in the Washington *qui tam* case filed the complaint under the State of New York's False Claims Act though the state has not announced an intention to intervene in the matter. The Company intends to continue to cooperate with the investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In December 2010, the Company received a subpoena from the Office of Consumer Protection of the Attorney General of the Commonwealth of Kentucky requesting documents and detailed information for the time period of January 1, 2008 through December 31, 2010. The Company has three Brown Mackie College locations in Kentucky. The Kentucky Attorney General announced an investigation of the business practices of proprietary post-secondary schools and that subpoenas were issued to six proprietary colleges that do business in Kentucky in connection with the investigation. The Company intends to continue to cooperate with the investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In October 2010, Argosy University received a subpoena from the Florida Attorney General's office seeking a wide range of documents related to the Company's institutions, including the nine institutions located in Florida, from January 2, 2006 to the present. The Florida Attorney General has announced that it is investigating potential misrepresentations in recruitment, financial aid and other areas. The Company is cooperating with the investigation, but has also filed a suit to quash or limit the subpoena and to protect information sought that constitutes proprietary or trade secret information. The Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

City of San Francisco

In December 2011, the Company received a letter from the City Attorney of the City of San Francisco, California requesting information related to student recruitment and indebtedness, including recruiting practices and job placement reporting, among other issues, by The Art Institute of San Francisco and the seven other Art Institutes located in California. On June 17, 2014, the Company entered into an Assurance of Voluntary Compliance (the “Assurance”) with the City Attorney for the purpose of resolving disputed claims, avoiding the expense of further litigation, and permitting the Company to focus on its education mission with regard to its students. Under the Assurance, without admitting liability, the Company has agreed to pay the aggregate amount of approximately $4.4 million, consisting of $2.0 million to the City Attorney for fees and costs of the investigation and to carry out the purpose of the Assurance, $1.6 million to fund a scholarship program for students who enrolled in The Art Institute of California - San Francisco or one of the California Art Institutes diploma or degree programs and did not obtain their diplomas or degrees and $0.8 million for an unrestricted scholarship program for students attending one of the California Art Institutes.

As part of the Assurance, the California Art Institutes agreed to, among other things: disclosure to be provided, and prescribed calculation methods, for placement rates, actual or average salaries, graduation and completion rates, transfer rates, retention rates, cohort default rates, and percentage of enrollees who finish a diploma or undergraduate degree program earlier than the planned time for completion of the diploma or undergraduate degree program; disclosure to be provided related to financial aid; training of California Art Institutes employees involved in the collection of graduate employment information; provision of appropriate placement representative-to-student ratios at each of its schools and certain placement assistance services; termination of any employee who it is determined provided or attempted to provide materially false graduate employment information for inclusion in the placement data to be published by a California Art Institute; reporting of data to the City Attorney regarding compliance with the Assurance; hiring of an independent auditor to conduct an audit of placement rates; and maintenance of written records regarding compliance with the Assurance.

Securities and Exchange Commission Subpoenas

On March 20, 2013, the Company received a subpoena from the Division of Enforcement of the Securities and Exchange Commission requesting documents and information relating to the Company's valuation of goodwill and its bad debt allowance for student receivables. The Company received a second subpoena from the Division of Enforcement on May 13, 2013 which requests documents and information related to the letters of credit posted with the U.S. Department of Education. In June 2014, the Company was informed by the Division of Enforcement that the investigation was complete and that it does not intend to recommend an enforcement action by the Securities and Exchange Commission.

Argosy University, Seattle APA Program Accreditation Lawsuits

In August 2013, a petition was filed in the Superior Court of the State of Washington (King County) in the case of *Winters, et al. v. Argosy Education Group, et al.* by 20 former students in the Clinical Psychology program offered by the Seattle campus of Argosy University. In December 2013, a similar petition was filed in the same court in the case of *McMath, et al. v. Argosy Education Group, et al.* by nine former students in the Clinical Psychology program offered by the Seattle campus of Argosy University. Both cases allege negligent misrepresentation due to the failure of the Clinical Psychology program to obtain accreditation from the American Psychology Association ("APA"), breach of contract, violation of the Washington State Consumer Protection Act, negligent infliction of emotional distress, negligence and lack of institutional control, negligent misrepresentation, breach of fiduciary duty, negligent failure to disclose and fraud. The Seattle campus of Argosy University announced that it was teaching-out (i.e., not accepting new students into the program) the Clinical Psychology program in November 2011 due to the inability to obtain APA accreditation. The Company believes the claims in the lawsuits to be without merit and intends to vigorously defend itself. Because of the many questions of fact and law that may arise, the outcome of these legal proceedings is uncertain at this point. Based on the information presently available, the Company cannot reasonably estimate a range of loss for these actions and, accordingly, has not accrued any liability associated with these actions.

Other Matters

The Company is a defendant in certain other legal proceedings arising out of the conduct of its business. Additionally, the Company is subject to compliance reviews by various state and federal agencies which provide student financial aid programs, of which noncompliance may result in liability for educational benefits paid as well as fines and other corrective action. In the opinion of management, based upon an investigation of these matters and discussion with legal counsel, the ultimate outcome of such other legal proceedings and compliance reviews, individually and in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

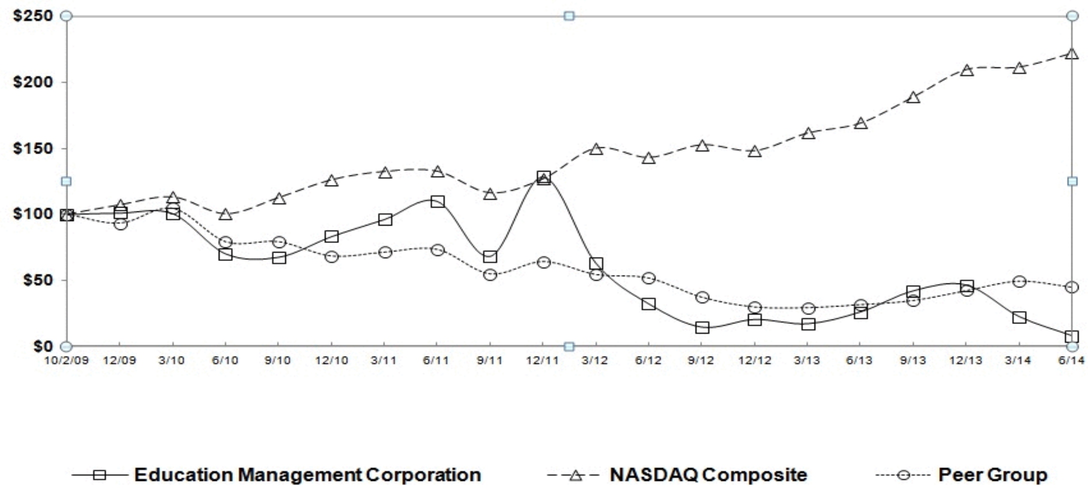
On October 1, 2009, we consummated an initial public offering of 23.0 million shares of our common stock for net proceeds of approximately $387.3 million. In connection with the initial public offering, our Board of Directors declared a 4.4737 for one split of our common stock, which was paid in the form of a stock dividend on September 30, 2009. In connection with this stock split, we amended and restated our articles of incorporation to, among other things, increase the number of authorized shares of our common stock. Unless otherwise noted, all information presented in this Form 10-K has been adjusted to reflect our amended and restated articles of incorporation and stock split.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "EDMC." At October 16, 2014, there were 126,059,632 shares of our common stock outstanding, which were held by approximately 70 holders of record. The computation of the approximate number of shareholders is based upon a broker search. The prices set forth below reflect the high and low sales prices for our common stock, as reported in the consolidated transaction reporting system of the Nasdaq Global Select Market:

	Price Range of Common Stock	
	High	Low
2014		
First quarter	$ 9.19	$ 5.60
Second quarter	16.94	9.11
Third quarter	10.95	4.55
Fourth quarter	4.96	1.60
	High	Low
2013		
First quarter	$ 8.00	$ 2.84
Second quarter	5.62	2.87
Third quarter	5.24	3.12
Fourth quarter	7.78	3.43

The following performance graph compares the yearly percentage change in the cumulative total shareholder return on the Company's common stock since its initial public offering in October 2009 to the cumulative shareholder return for the same period of a peer group and the NASDAQ Composite Index. The peer group is comprised of EDMC, Apollo Group, Inc., Capella Education Co., Career Education Corporation, DeVry Inc., ITT Educational Services, Inc. and Strayer Education, Inc. We believe this peer group represents a significant portion of the market value of publicly traded companies whose primary business is post-secondary education.

COMPARISON OF 57 MONTH CUMULATIVE TOTAL RETURN*
Among Education Management Corporation, the NASDAQ Composite Index, and a Peer Group



*$100 invested on 10/2/09 in stock or 9/30/09 in index, including reinvestment of dividends.
Fiscal year ending June 30.

The preceding stock price performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.

We have not paid dividends since the initial public offering of our common stock in October 2009, and we currently do not expect to pay dividends on shares of our common stock. The agreements governing our indebtedness limit our ability to pay dividends.

See Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters” for information relating to our equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected consolidated financial and other data as of the dates and for the periods indicated. The selected consolidated balance sheet data as of June 30, 2013 and 2014 and the selected consolidated statement of operations data and the selected consolidated statement of cash flows data for the fiscal years ended June 30, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The selected historical consolidated balance sheet data as of June 30, 2010, 2011 and 2012 and the consolidated statement of operations and of cash flows data for the fiscal years ended June 30, 2010 and 2011 presented in this table have been derived from audited consolidated financial statements not included in this Form 10-K except as noted below. With the exception of changes to historical goodwill impairment charges more fully described in footnote (1) to the table below, certain reclassifications of prior year data have been made to conform to the current year presentation that did not impact previously reported net loss or shareholders' equity.

The selected consolidated financial and other data presented are not necessarily indicative of the results that may be obtained for any future date or for any future period and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8, "Financial Statements and Supplementary Data" that appear elsewhere in this Form 10-K.

	For the Fiscal Year Ended June 30,				
	2010	2011	2012	2013	2014
	(Dollars in millions except per share amounts)				
Statement of Operations Data:					
Net revenues	$ 2,508.5	$ 2,887.6	$ 2,761.0	$ 2,498.6	$ 2,272.7
Costs and expenses:					
Educational services	1,251.4	1,473.3	1,502.3	1,447.1	1,373.7
General and administrative	682.8	766.5	762.9	689.2	667.6
Management fees paid to affiliates	32.1	—	—	—	—
Depreciation and amortization	123.4	146.5	158.7	164.7	152.5
Long-lived asset impairments (1)	—	—	1,662.3	300.1	568.2
Total costs and expenses	2,089.7	2,386.3	4,086.2	2,601.1	2,762.0
(Loss) income before interest, loss on debt refinancing and income taxes	418.8	501.3	(1,325.2)	(102.5)	(489.3)
Interest expense, net	121.5	120.7	110.3	124.7	128.1
Loss on debt refinancing	47.2	11.4	9.5	5.2	—
(Loss) income before income taxes	250.1	369.2	(1,445.0)	(232.4)	(617.4)
Income tax expense (benefit)	81.6	139.7	(11.4)	12.0	46.6
Net (loss) income	$ 168.5	$ 229.5	$ (1,433.6)	$ (244.4)	$ (664.0)
(Loss) earnings per share:					
Basic	$ 1.23	$ 1.67	$ (11.32)	$ (1.96)	$ (5.29)
Diluted	$ 1.22	$ 1.66	$ (11.32)	$ (1.96)	$ (5.29)
Weighted average number of shares outstanding (in 000s):					
Basic	136,917	137,376	126,659	124,560	125,504
Diluted	137,667	138,316	126,659	124,560	125,504
Statement of Cash Flows Data:					
Net cash flows provided by (used in):					
Operating activities	$ 307.1	$ 399.7	$ (10.9)	$ 191.3	$ 70.6
Capital expenditures for long lived assets	$ (175.8)	$ (138.1)	$ (93.5)	$ (83.2)	$ (73.8)
Investing activities	$ (190.2)	$ (161.2)	$ (108.9)	$ (25.8)	$ (66.7)
Financing activities	$ (106.4)	$ (209.2)	$ (92.1)	$ (225.6)	$ 136.0
Other Data:					
EBITDA (2)	$ 495.0	$ 636.4	$ (1,176.1)	$ 57.0	$ (336.8)
Enrollment at beginning of fall quarter	136,000	158,300	151,200	132,000	126,000
Campus locations (at period end)	101	105	109	110	110

	As of June 30,				
	2010	2011	2012	2013	2014
Balance Sheet Data:	(In millions)				
Cash and cash equivalents (excludes restricted cash)	$ 373.5	$ 403.2	$ 191.0	$ 130.7	$ 270.6
Total assets	$ 4,511.6	$ 4,553.1	$ 2,923.6	$ 2,423.4	$ 1,877.0
Total debt, including current portion and revolving credit facility	$ 1,538.7	$ 1,557.9	$ 1,576.8	$ 1,360.2	$ 1,503.4
Total shareholders' equity	$ 2,076.7	$ 2,103.9	$ 578.7	$ 355.9	$ (284.9)

(1) The goodwill impairment charges in fiscal 2012 and fiscal 2013 have been adjusted as further described in Item 8, "Financial Statements and Supplementary Data," Note 5, "Goodwill and Intangible Assets" under “Correction of Immaterial Errors."

(2) EBITDA, a measure used by management to measure operating performance, is defined as net income before interest expense, net, provision for income taxes and depreciation and amortization. EBITDA is not a recognized term under accounting principles generally accepted in the United States of America ("GAAP") and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management’s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is calculated as follows:

	For the Fiscal Year Ended June 30,				
	2010	2011	2012	2013	2014
			(in millions)		
Net (loss) income	$ 168.5	$ 229.5	$ (1,433.6)	$ (244.4)	$ (664.0)
Interest expense, net	121.5	120.7	110.3	124.7	128.1
Income tax expense (benefit)	81.6	139.7	(11.5)	12.0	46.6
Depreciation and amortization	123.4	146.5	158.7	164.7	152.5
EBITDA	$ 495.0	$ 636.4	$ (1,176.1)	$ 57.0	$ (336.8)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

We are among the largest providers of post-secondary education in North America, with over 125,560 enrolled students as of October 2013. We offer academic programs to our students through campus-based and online instruction, or through a combination of both. We are committed to offering quality academic programs and strive to improve the learning experience for our students as we help them achieve their educational goals across the full spectrum of in-demand careers. We target a large and diverse market, as our educational institutions offer students the opportunity to earn undergraduate and graduate degrees, including doctoral degrees, and certain specialized non-degree diplomas in a broad range of disciplines. These disciplines include media arts, health sciences, design, psychology and behavioral sciences, culinary, business, fashion, legal, education and information technology.

Each of our schools located in the United States is licensed or permitted to offer post-secondary programs in the state in which it is located, accredited by a national or regional accreditation agency and certified by the U.S. Department of Education, enabling students to access federal student loans, grants and other forms of public and private financial aid. Our innovative academic programs are designed with an emphasis on employment-focused content and technology that advances education, and are taught primarily by faculty members who, in addition to having appropriate academic credentials, offer practical and relevant professional experience in their respective fields. We had net revenues of $2.3 billion in fiscal 2014 and had approximately 20,800 employees as of June 30, 2014.

Our schools comprise a national education platform that is designed to address the needs of a broad and diverse market, taking into consideration various factors that influence demand, such as programmatic and degree interest, employment opportunities, requirements for credentials in certain professions, demographics, tuition pricing points and economic conditions. We believe that our schools collectively enable us to provide access to a high quality education for potential students, at a variety of degree levels and across a wide range of disciplines

During our more than 40-year operating history, we have expanded the reach of our education systems and currently operate 110 primary locations across 32 U.S. states and in Canada. In addition, we have offered online programs since 2000, enabling our students to pursue degrees fully-online or through a flexible combination of both online and campus-based education. We strive to maintain a culture of compliance within our organization with the numerous laws and regulations that govern our business and operations.

Students attending our schools rely on numerous sources to fund their education and other expenses. A majority of students rely on government-sponsored student financial aid programs, especially Title IV programs, to pay a substantial portion of their tuition and other education-related expenses. Because of the dependence on government-sponsored programs, we participate in industry groups and monitor the impact of newly proposed legislation on our business. The availability of private loans to students has been limited over the last several years, which has resulted in us providing increased amounts of financial support to students.

We and other proprietary post-secondary education providers have experienced a number of recent challenges that resulted in declines in enrollment at many of our schools during the last two fiscal years, which negatively impacted our financial results. The average enrolled student body at our schools decreased by 7.3% in fiscal 2014 compared to fiscal 2013 and by 11.3% in fiscal 2013 compared to fiscal 2012.

Statement of Operations

The largest component of our net revenues is tuition collected from our students, which is presented in our statements of operations after deducting refunds, scholarships and other adjustments. The majority of our net revenues comes from various government-sponsored student finance programs, and the amount of tuition revenue received from students varies based on our average enrolled student body, the average tuition charge per credit hour, and average credit hours taken per student. Factors affecting our average enrolled student body include new students, students who withdraw and then return to school after withdrawal, student persistence, and graduates. These factors are impacted by the number of individuals seeking post-secondary education, the attractiveness of our program offerings, the quality of the student experience, the length of the education programs and our overall educational reputation. In addition to tuition and fees, net revenues consist of sales of related study materials, student housing fees, bookstore sales, restaurant sales in connection with culinary programs and workshop fees, all of which are largely a function of average enrolled student body. Our quarterly net revenues and income fluctuate primarily as a result of the pattern of student enrollments.

Educational services expense consists primarily of costs related to the development, delivery and administration of our education programs. Major cost components are faculty compensation, salaries of administrative and student services staff, costs of educational materials, facility occupancy costs, bad debt expense and information systems costs.

General and administrative expense consists of marketing and student admissions expenses and certain central staff departmental costs such as executive management, finance and accounting, legal, corporate development and other departments that do not provide direct services to our students. We have centralized many of these services to gain consistency in management reporting, efficiency in administrative effort and cost control.

Key Trends, Developments and Challenges

We operate in a challenging economic environment in a highly regulated and dynamic industry. During fiscal 2014, our financial results did not meet our prior forecasts. Due primarily to lower than anticipated application production for future periods at The Art Institutes observed in the third quarter of fiscal 2014, together with a significant deterioration in our market capitalization and credit rating downgrades throughout fiscal 2014, we performed impairment reviews of the carrying value of goodwill and indefinite-lived intangible assets at all of our reporting units and recorded goodwill and indefinite-lived intangible asset impairment charges totaling $568.2 million in the fiscal year ended June 30, 2014.

We believe that the following developments and trends present opportunities, challenges and risks to our business and negatively impacted our annual results and projections of future results:

We recently agreed to a comprehensive restructuring of our outstanding indebtedness, which is subject to the approval of numerous regulatory bodies and our current shareholders.

At June 30, 2014, we had $1.5 billion of indebtedness outstanding, which consisted of approximately $1.3 billion outstanding on our senior credit facility, consisting of $1.1 billion of term loans and $220 million drawn on a revolving credit facility, and $216 million of Cash Pay/PIK Notes. We have experienced deteriorating results from operations over the last several fiscal years due to the stagnant U.S. economy, the substantial decrease in the availability of private lending sources to fund tuition and fees, the loss of federal and state support for student financial aid, the impact of adverse publicity related to the proprietary education industry, student concerns about incurring debt to fund their education, the impact of new regulations, and our inability to increase tuition rates, among other factors. Our net revenues were $2.9 billion, $2.8 billion, $2.5 billion and $2.3 billion in fiscal 2011, fiscal 2012, fiscal 2013 and fiscal 2014, respectively. We announced in May 2014 that we did not anticipate being in compliance as of June 30, 2014 with the maximum total leverage ratio and minimum interest coverage ratio financial covenants included in our senior credit facility. In order to address our covenant compliance and debt maturity issues, we engaged in negotiations with our creditors and, after obtaining a waiver of the financial covenants through September 15, 2014, entered into the following agreements:

- the Amendment Agreement, pursuant to which, among other things, (i) the maturity on the revolving credit facility was extended from June 1, 2015 to July 2, 2015, (ii) the Consenting Lenders under the revolving credit facility agreed to accept payment of interest in kind rather than cash through June 30, 2015, (iii) the Consenting Lenders holding term loans agreed that no amortization payments will be payable through June 30, 2015 and to accept the payment of interest in kind rather than cash through June 30, 2015, (iv) EDMC became a guarantor and granted a lien on substantially all of its assets to secure the obligations under the agreement, (v) compliance with the financial covenants was waived through June 30, 2015, and (vi) the security agreement governing the credit facility was amended such that the collateral proceeds "waterfall" set forth therein now provides that obligations owing to any lenders that are not Consenting Lenders shall be paid only after satisfaction in full of obligations owing to Consenting Lenders and swap counterparties who have executed the RSA;
- the Supplemental Indenture, pursuant to which the Indenture governing the Cash Pay/PIK Notes was amended (i) to require us to offer all holders of the Cash Pay/PIK Notes the opportunity to receive the same consideration in the Debt Restructuring as holders of the Interim Notes, (ii) to provide for (a) the release of EDMC's guarantee and (b) the termination of certain covenants and certain events of default, in each case upon the completion of the exchange of Cash Pay/PIK Notes and Interim Notes contemplated by the Debt Restructuring and (iii) to provide that if Education Management LLC is no longer subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, it will not be required to file reports with the Securities and Exchange Commission but instead will be required to distribute annual, quarterly and current reports to the trustee under the Indenture and hold a conference call within 20 business days of furnishing required annual and quarterly reports;
- the Exchange Agreement, pursuant to which the holders of in excess of 86% of the outstanding Cash Pay/PIK Notes exchanged their Cash Pay/PIK Notes for a like principal amount of new Interim Notes, whose terms are substantially similar to those of the Cash Pay/PIK Notes, except that their interest is payable entirely in kind for the two interest periods ending September 30, 2014 and March 30, 2015;
- the New Indenture, pursuant to which the Interim Notes were issued; and
- the RSA, pursuant to which the Consenting Lenders, the Consenting Noteholders and the Consenting Shareholders agreed to support the Debt Restructuring as described below.

Pursuant to the Debt Restructuring:

- $150 million of revolving loans under our existing revolving credit facility will be repaid in cash at par, with such amount available for re-borrowing under a new revolving credit facility;
- the remaining portion of our $1.5 billion of outstanding indebtedness, including the Interim Notes, will be exchanged for two first lien senior secured term loans due July 2, 2020 in the aggregate principal amount of $400 million, mandatorily convertible preferred stock, optionally convertible preferred stock and warrants for common stock; and
- our current shareholders will retain their outstanding common stock, which in aggregate will equal 4% of our outstanding common stock after giving effect to the conversion of all of the preferred stock described above and subject to further dilution by a management incentive plan (the "MIP") and warrants (including those described in the next sentence) to be awarded pursuant to the Debt Restructuring. In addition, current shareholders will receive warrants for 5% of our common stock (subject to dilution by the MIP).

Subject to receipt of applicable regulatory approvals, we anticipate distributing the consideration described above on or about October 30, 2014 in connection with the contemplated closing of an exchange offer for the Cash Pay/PIK Notes and Interim Notes. However, the mandatory or voluntary conversion, as the case may be, of new preferred stock and the exercise of warrants will remain subject to a shareholder vote and regulatory approval (including from the U.S. Department of Education, accrediting agencies and state licensing agencies), which we anticipate obtaining in 2015.

Numerous new and proposed regulations addressing the education industry could impact our business.

Our business is highly regulated and there has been an increased focus on regulations designed to address the rising costs of post-secondary education in order to make higher education more affordable and address perceived issues in the post-secondary industry. In March 2014, the U.S. Department of Education proposed a gainful employment regulation that would cause each educational program covered by the rule to fail if the student-loan debt payments of graduates of the program exceed 12 percent of their annual incomes and 30 percent of their discretionary incomes, the same ratios as in the original rule. Programs whose graduates have debt-to-annual-income ratios of 8 percent to 12 percent or debt-to-discretionary-income ratios of 20 percent to 30 percent would fall in a “zone”, and the institution would have to warn students that they might become ineligible for aid. Programs that fail both debt-to-annual-income tests twice in any three-year period or are in the zone or failing for four consecutive years would be ineligible for federal student aid. Additionally, programs whose borrower cohort default rates equal or exceed 30 percent for three consecutive years would be ineligible for federal student aid. The comment period ended on May 27, 2014 and a final rule must be published in the Federal Register by November 1, 2014 to be effective as of July 1, 2015. The U.S. Department of Education estimated that approximately 1,000,000 students, or approximately 50% of the total number of students enrolled in proprietary post-secondary institutions, are enrolled in programs that would either fail or fall into the zone for improvement under the proposed gainful employment metrics. Though the calculation was based on 2012 informational rate data and therefore does not reflect any program eliminations and other efforts to comply with the proposed rule, over 50% of our program offerings failed to satisfy the gainful employment test based on graduate data published by the U.S. Department of Education. If the final gainful employment rule is substantially similar to the proposed rule published for comment, it would have a material adverse effect on our business.

The U.S. Department of Education also published notices of proposed rulemaking in the Federal Register in June 2014 to amend the Clery Act for changes required by the Violence Against Women Act and in August 2014 to revise the definition of "adverse credit" for borrowers under the PLUS loan program. The U.S. Department of Education has also held negotiated rulemaking sessions in 2014 to address cash management of Title IV funds including use of debit cards and handling of Title IV credit balances; state authorization for programs offered through distance or correspondence education; state authorization for non-U.S. locations of educational institutions; clock to credit hour conversion; and the application of repeat coursework provisions to graduate and undergraduate programs. In addition, the Attorney General of the Commonwealth of Massachusetts adopted regulations in June 2014 which, among other things, prohibit proprietary post-secondary institutions from engaging in practices which have the tendency or capacity to mislead a prospective student, require extensive disclosures to prospective students at least 72 hours before they sign an enrollment agreement on matters such as the program cost, graduation rates, placement rates and average time to graduation, and prohibit practices such as initiating contact with a prospective student more than twice in a seven day period and enrolling students which the institution knew or should have known are unlikely to graduate or find employment in their chosen field. The regulations apply to students attending our one school location in Massachusetts and students enrolled in one of our fully online programs who reside in Massachusetts. Our failure to comply with new regulations affecting our operations, including those adopted by the Massachusetts Attorney General, could have a material adverse effect on results of operations and cash flows.

The HEA is scheduled for reauthorization in 2014 and the reauthorization process may result in significant changes to the post-secondary education industry. Among other things, there have been proposals in Congress to amend the 90/10 rule in connection with the reauthorization of the HEA to prohibit proprietary institutions from receiving more than 85 percent of their revenues from federal funds, including veterans benefits and U.S. Department of Defense tuition assistance. Another proposal would prohibit federal education dollars from being used for advertising and marketing purposes. Any revisions to the HEA, the regulations adopted by the U.S. Department of Education, or the 90/10 rule could have a material adverse impact on our business.

Students' inability to obtain financing sources for their education has resulted in our increasing internal student lending activities, limiting increases to tuition rates and substantially increasing the amount of scholarships and grants we provide to students, which has negatively impacted our net revenues.

In the past, we and other providers of a post-secondary education were able to pass along the rising cost of providing quality education through increases in tuition charged to students. As a result, the cost of a post-secondary degree increased substantially while incomes earned by families stagnated due to a weak economy. Significant decreases to the availability of private loans and other financing sources such as PLUS loans have made prospective students more price sensitive and caused us to increase internal lending to students. Our collections experience on loans we provide to students has declined along with the increase to our internal lending activity. In order to make our programs more attractive to prospective students, we have introduced a number of initiatives to limit or decrease the cost of obtaining a degree from our institutions, including freezing tuition at The Art Institutes through 2015 for students who enrolled by October 2013, decreasing the number of credit hours necessary to complete certain programs, and substantially increasing the availability of scholarships to students. Due to this focus on decreasing the cost of education at our schools, we estimate that the average debt incurred by students graduating from the Art Institutes has decreased by approximately 15% since 2010. We believe that our limited ability to increase tuition will continue for the foreseeable future.

In addition to limiting tuition increases, we substantially increased the amount of scholarships and grants we provide to students in fiscal 2014, which we believe provides long-term benefits to student persistence and graduation rates despite the initial upfront cost. We awarded approximately $143 million in merit and need-based scholarships and grants in fiscal 2014 as compared to approximately $96 million in fiscal 2013. Of the scholarships and grants awarded during fiscal 2014, approximately $99 million were awarded to students attending one of The Art Institutes, the largest of our four education systems and from which approximately 61% of our net revenues were derived in fiscal 2014. We expect to increase the amount of scholarships and grants provided to students in fiscal 2015 as compared to fiscal 2014 as we continue to address student affordability and debt issues. For example, The Art Institutes recently introduced a new program called The ART Grant scholarship at eleven of its locations in the West Coast which decreases tuition by up to 15% for Associate's degree programs and 20% for Bachelor's degree program and is designed to incentivize student persistence and limit over-borrowing. We anticipate introducing this grant program at additional Art Institute locations throughout fiscal 2015. We project that increased scholarships and grants, which will result in lower amounts of financing we provide to students, will have a negative impact on net revenues in fiscal 2015.

Investigations of proprietary education institutions, adverse publicity, and outstanding litigation have adversely impacted our operating results.

Although we believe that there are a number of factors that should contribute to long-term demand for post-secondary education, recently the industry as a whole has been challenged by a number of factors, including the overall negative impact of the current political and economic climate. We and other proprietary post-secondary education providers have been subject to increased regulatory scrutiny and litigation in recent years. On July 30, 2012, the majority staff of the HELP Committee released a report, "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success," which was drawn from hearings on the industry beginning in August 2010. While stating that proprietary colleges and universities have an important role to play in higher education and should be well-equipped to meet the needs of non-traditional students who now constitute the majority of the post-secondary educational population, the report was highly critical of these institutions. Additionally, a number of state Attorneys General have launched investigations into proprietary post-secondary institutions, including a number of our schools. We received subpoenas from the Attorneys General of Florida, Kentucky, New York, Colorado, and Massachusetts in October 2010, December 2010, August 2011, September 2012, and January 2013, respectively, and the San Francisco, California City Attorney in December 2011 in connection with investigations of our institutions and their business practices. We announced settlements of the Colorado Attorney General and San Francisco, California City Attorney investigations in December 2013 and June 2014, respectively. During 2014 we and three other publicly traded companies in the proprietary education industry received subpoenas from the Attorneys General of 14 states as part of a multi-state investigation of the industry. We also received a subpoena from the Office of Inspector General of the U.S. Department of Education in May 2013 requesting policies and procedures related to Argosy University's attendance, withdrawal, and return to Title IV policies. These investigations, together with the *Washington qui tam* lawsuit in which the U.S. Department of Justice and Attorneys General from five states have intervened, have led to a significant amount of negative publicity for the proprietary education industry and our schools.

We have adopted a number of initiatives to make our business more efficient and will continue to do so in the future.

Our focus on limiting or decreasing the cost of an education for our students has led us to adopt a number of measures designed to make our business more efficient. Primarily through process efficiencies and productivity improvements, we realized an estimated gross cost savings of $120 million during fiscal 2014 as compared to fiscal 2013. We plan to continue these efforts in fiscal 2015 due to our organizational focus on increasing cash flow from operations and will seek to find additional cost savings as compared to fiscal 2014. Among other long-term cost savings efforts, we plan to continue to pursue the consolidation of some of our institutions in order to achieve operational efficiencies and support our student affordability efforts. We anticipate that these efforts will allow us to enhance our programmatic and degree offerings, decrease our administrative costs by simplifying our structure and streamlining our compliance efforts, and better standardize the roll-out of academic programs across our national footprint. We believe that these affordability efforts contribute significantly to our core mission of educating students.

Student concerns regarding the assumption of additional debt in light of the current economic climate have given rise to reluctance to pursue further education.

Due to the effects of the current economic climate many prospective students are unable to make cash payments towards their education. Recently, there has been a significant amount of negative publicity surrounding the incurrence of excessive debt to pay for a post-secondary education. On July 19, 2012, the CFPB and the U.S. Department of Education issued a report describing what they characterized as risky practices in the private student loan market over the past ten years, among other things. According to the CFPB's estimates, outstanding student loan debt in the United States exceeded $1 trillion in 2011, with $864 billion of federal student debt and $150 billion of private student loan debt. A number of media outlets have published stories linking student loan indebtedness to the recent mortgage loan crisis. We believe that the negative publicity surrounding student indebtedness, together with the inability of students to pay cash for their education and the effect of a stagnant economy and challenged employment prospects, have led to a reluctance in a number of prospective students to enroll in our schools.

The education industry is rapidly evolving and highly competitive.

The U.S. higher education industry, including the proprietary sector, is experiencing unprecedented, rapidly developing changes due to technological developments, evolving needs and objectives of students and employers, economic constraints affecting educational institutions and students, price competition, increased focus on affordability, and other factors that challenge many of the core principles underlying the industry. Related to this, a substantial proportion of traditional colleges and universities and community colleges now offer some form of distance learning or online education programs, including programs geared towards the needs of working learners. As a result, we face increased competition for students, including from colleges with well-established brand names. In addition, we face competition from various emerging nontraditional, credit-bearing and noncredit-bearing education programs, offered by both proprietary and not-for-profit providers. These include massive open online courses (MOOCs) offered worldwide without charge by traditional educational institutions and other direct-to-consumer education services, which some educational institutions are now considering for credit. Further, according to information published by the National Student Clearinghouse, enrollment in post-secondary institutions decreased by 0.8% from the Spring of 2013 to the Spring of 2014, and enrollment in four-year proprietary institutions decreased by 4.9% during the same time period. We must adapt our business to meet these rapidly evolving developments. We are working to accelerate the enhancement of our offerings to remain competitive and to more effectively deliver a quality student experience at an attractive price.

These developments and trends have negatively impacted our results from operations, and we expect further deterioration during fiscal 2015. In particular, the trend of application volume for the October start at The Art Institutes has been lower than fiscal 2014 and we expect total new students, along with starting student body, during the October start to decrease as well. The Fall start at The Art Institutes is typically the largest of the academic year due to the significant number of recent high school graduates who enroll each year, which results in the number of new students during this start having a disproportionate impact on our financial results for the remainder of the fiscal year. We believe that our plan to address decreasing enrollments at our schools through, among other things, additional student affordability measures such as The ART Grant, which will negatively impact our net revenues and operating results in the short-term, will have a long-term positive impact on our business.

Results of Operations

The following table sets forth for the periods indicated the percentage relationship of certain statements of operations items to net revenues.

Amounts expressed as a percentage of net revenues

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Net revenues	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Educational services	60.4 %	57.9 %	54.5 %
General and administrative	29.4 %	27.6 %	27.6 %
Depreciation and amortization	6.7 %	6.6 %	5.7 %
Long-lived asset impairments *	25.0 %	12.0 %	60.2 %
Total costs and expenses	121.5 %	104.1 %	148.0 %
Loss before interest, loss on debt refinancing and income taxes	(21.5)%	(4.1)%	(48.0)%
Interest expense, net	5.6 %	5.0 %	4.0 %
Loss on debt refinancing	— %	0.2 %	0.3 %
Loss before income taxes	(27.1)%	(9.3)%	(52.3)%
Income tax expense (benefit)	2.1 %	0.5 %	(0.4)%
Net loss	(29.2)%	(9.8)%	(51.9)%

* The goodwill impairment charges from fiscal 2013 and 2012 have been adjusted as further described in Item 8, "Financial Statements and Supplementary Data," Note 5, "Goodwill and Intangible Assets" under "Correction of Immaterial Errors."

Year Ended June 30, 2014 (Fiscal 2014) Compared with the Year Ended June 30, 2013 (Fiscal 2013)

All basis point changes are presented as a change in the percentage of net revenues in each year of comparison.

Net revenues

We derived approximately 92.8% and 93.1% of our net revenues from tuition and fees paid by, or on behalf of, our students in fiscal 2014 and 2013, respectively. Net revenues decreased 9.0% to $2,272.7 million in fiscal 2014, compared to $2,498.6 million in fiscal 2013, which was primarily due to a decrease in average enrolled student body from 127,360 students in fiscal 2013 to 118,090 students in fiscal 2014, or a decrease of 7.3%. The decrease in average enrolled student body was primarily the result of the factors described under "Key Trends, Developments and Challenges" above. Refer to further discussion of net revenue by reportable segment below at "Analysis of Operating Results by Reportable Segment."

Educational services expense

Educational services expense decreased by $73.4 million, or 5.1%, to $1,373.7 million in fiscal 2014. As a percentage of net revenues, educational services expense increased by 253 basis points, of which a 49 basis point increase related to restructuring plans that we completed across the organization in both fiscal years that were intended to improve operational efficiencies and align costs with student enrollment levels. The remaining increase of 204 basis points as a percentage of net revenues was primarily the result of decreases in average class size due to lower average enrolled student body compared to the prior fiscal year and the resulting loss of operating leverage.

Costs that were most affected by the loss in operating leverage were rent expense associated with school locations, which increased 95 basis points as a percentage of net revenues compared to the prior fiscal year, and salaries and benefits expenses, which increased 94 basis points as a percentage of net revenues, both of which exclude restructuring expenses described above. The increase in rent expense as a percentage of net revenues was due in part to more leases as a result of the sale leaseback transactions we entered into in the second quarter of fiscal 2013 and third quarter of fiscal 2014.

As disclosed below in "Critical Accounting Policies - Revenue Recognition," effective in fiscal 2014, we record revenue upon a student's withdrawal from school during a term of instruction based on cash received after the student withdraws. The correction in policy resulted in reducing net revenues by $36.7 million and bad debt expense by $33.2 million in fiscal 2014. Including the policy change, which affected only fiscal 2014, bad debt expense was $141.9 million, or 6.3% of net revenues, in the current fiscal year, which was a 63 basis point decrease compared to bad debt expense of $171.9 million, or 6.9% of net revenues, in the prior fiscal year. However, uncollectible amounts increased in the current year compared to the prior year due to an increase in the extension of credit to our students largely attributable to reduced PLUS loan availability under Title IV programs beginning in the fourth quarter fiscal 2012.

The remaining net increase of 78 basis points in educational services expense as a percentage of net revenues in the current fiscal year relates to other items, none of which was individually significant.

General and administrative expense

General and administrative expense decreased by $21.6 million, or 3.1%, to $667.6 million in the current fiscal year. Despite our continued focus on aligning our cost structure with the current operating environment, general and administrative expense increased by 179 basis points compared to the prior fiscal year. Costs associated with restructuring plans as described above, which include lease restructuring and employee severance costs, and legal settlements together accounted for 76 basis points of this increase. The remaining increase was the result of lost operating leverage on other areas of our business.

Legal fees and consulting costs, the latter of which was incurred in part to assist future process optimization and centralization efforts to support student affordability, increased by 58 basis points in the current fiscal year. Marketing and admissions costs were 23.2% and 22.8% of net revenues in the fiscal years ended June 30, 2014 and 2013, respectively, accounting for an increase of 41 basis points as a percentage of net revenues. The remaining net increase of four basis point in the current fiscal year relates to other items, none of which was individually significant.

Depreciation and amortization

As a percentage of net revenues, depreciation and amortization expense remained flat in fiscal 2014 compared to fiscal 2013. On an absolute basis, depreciation and amortization decreased by 7.4% year over year.

Long-lived asset impairments

We recorded non-cash long-lived asset impairments in fiscal 2014 totaling $568.2 million which consisted of goodwill impairment charges of $433.7 million and indefinite-lived intangible asset impairments of $124.8 million at The Art Institutes reporting unit. Also included were $6.1 million of impairment charges related to property and equipment at three of our Brown Mackie Colleges schools and $3.6 million related to intangible assets at Argosy University.

During the fiscal year ended June 30, 2013, we recorded non-cash long-lived asset impairments of $300.1 million which consisted of goodwill impairment charges of $270.9 million and an indefinite-lived intangible asset impairment of $28.0 million at The Art Institutes reporting unit and an impairment of $1.2 million of property and equipment at one of our Argosy University schools.

Refer to the Use of Estimates and Critical Accounting Policies section within Management's Discussion and Analysis and Item 8, "Financial Statements and Supplementary Data," Note 4, "Property and Equipment" and Note 5, "Goodwill and Intangible Assets" for more information.

Interest expense, net

Net interest expense was $128.0 million in the current fiscal year, an increase of $3.4 million, or 2.7%, from the prior fiscal year. The increase was primarily due to the higher rate on the Cash Pay/PIK Notes issued in connection with the debt refinancing in March 2013 described below and interest we incurred as a result of drawing down on our revolving credit facility on April 29, 2014. Refer to Item 8, "Financial Statements," Note 8, "Short-Term and Long-Term Debt" for more information.

Loss on debt refinancing

On March 5, 2013, we completed the exchange of $365.3 million of our 8.75% senior notes due June 1, 2014 for (i) $203.0 million of new senior notes and (ii) $162.3 million of cash. In connection with the exchange offer, we incurred fees of $5.2 million to third parties that were recorded as a loss on debt refinancing.

Refer to Item 8, "Financial Statements", Note 8, "Short-Term and Long-Term Debt" for more information.

Provision for income taxes

Our current year effective tax rate was impacted significantly as a result of increasing our valuation allowance associated with deferred tax assets by $127.7 million. In addition, our effective tax rates in the current and prior fiscal year were significantly impacted by goodwill impairments, none of which were deductible for income tax purposes. Notwithstanding the above, our effective tax rates also differed from the combined federal and state statutory rates due to state tax benefits, accounting related to uncertain tax positions, valuation allowances, and expenses that are non-deductible for tax purposes. Refer to Item 8, "Financial Statements", Note 11, "Income Taxes" for more information.

Year Ended June 30, 2013 (Fiscal 2013) Compared with the Year Ended June 30, 2012 (Fiscal 2012)

All basis point changes are presented as a change in the percentage of net revenues in each year of comparison.

Net revenues

We derived approximately 93.1% of our net revenues from tuition and fees paid by, or on behalf of, our students in each of fiscal 2013 and 2012. Net revenues decreased 9.5% to $2,498.6 million in fiscal 2013, compared to $2,761.0 million in fiscal 2012, which was primarily due to a decrease in average enrolled student body from 143,620 students in fiscal 2012 to 127,360 students in fiscal 2013, or a decrease of 11.3%. The decrease in average enrolled student body was primarily the result of the factors described under "Key Trends, Developments and Challenges" above. Partially offsetting the decrease in average enrolled student body was an increase in average revenue per student of 2.0% in fiscal 2013 compared to fiscal 2012 primarily due to a greater mix of campus-based students relative to fully-online students. Refer to further discussion of net revenue by reportable segment below at "Analysis of Operating Results by Reportable Segment."

Educational services expense

Educational services expense decreased by $55.3 million, or 3.7%, to $1,447.1 million in fiscal 2013. As a percentage of net revenues, education services expense increased by 350 basis points due primarily to decreases in average class size due to lower average enrolled student body compared to the prior fiscal year and the resulting loss of operating leverage. Costs that were most affected by the loss in operating leverage were salaries and benefits expenses, which increased 104 basis points as a percentage of net revenues compared to fiscal 2012, and rent expense associated with school locations, which increased 119 basis points as a percentage of net revenues compared to the prior fiscal year. The increase in rent expense as a percentage of net revenues was due in part to more leases as a result of the sale leaseback transactions we entered into in the second quarter of fiscal 2013 as well as the comparative effect of a favorable rent credit at one of our leased school locations in fiscal 2012.

In addition, bad debt expense was $171.9 million, or 6.9% of net revenues, in fiscal 2013 compared to $163.9 million, or 5.9% of net revenues, in the prior fiscal year, which represented an increase of 94 basis points. The increase in bad debt expense as a percentage of net revenues was primarily due to an increase in the extension of credit to our students largely attributable to reduced PLUS loan availability under Title IV programs beginning in fiscal 2012.

The remaining net increase of 33 basis points in the fiscal 2013 relates to other items, none of which was individually significant.

General and administrative expense

General and administrative expense decreased by $73.7 million, or 9.7%, to $689.1 million in fiscal 2013. As a percentage of net revenues, general and administrative expense was relatively flat, decreasing by five basis points compared to the prior fiscal year, demonstrating our continued focus on efficiency by ensuring that our cost structure properly reflects the current operating environment.

Marketing and admissions costs, which were 22.8% of net revenues in fiscal 2013 compared to 23.1% of net revenues in the prior fiscal year, decreased by 29 basis points as a percentage of net revenues. Partially offsetting this decrease was consulting and related costs, which increased by 16 basis points in fiscal 2013, due in part to investments designed to support future process optimization and centralization efforts to support student affordability. The remaining net increase of eight basis points in fiscal 2013 relates to other items, none of which was individually significant.

Depreciation and amortization

Depreciation and amortization of long-lived assets was $164.7 million in fiscal 2013 compared to $158.7 million in the prior fiscal year, an increase of 3.8% from the prior fiscal year. As a percentage of net revenues, depreciation and amortization expense increased by 85 basis points in fiscal 2013 compared to fiscal 2012. We recorded accelerated depreciation and amortization of $5.0 million resulting from the write-off of assets that no longer had a useful life during fiscal 2013, which accounted for an increase of 20 basis points. The remaining increase of 65 basis points as a percentage of net revenues in fiscal 2013 was primarily due to lower net revenues in fiscal 2013 compared to the prior year.

Long-lived asset impairments

During the fiscal year ended June 30, 2013, we recorded long-lived asset impairments of $300.1 million which consisted of a non-cash goodwill impairment of $270.9 million, a non-cash indefinite-lived intangible asset impairment of $28.0 million at The Art Institutes reporting unit and a non-cash impairment of $1.2 million of property and equipment at one of our schools.

During fiscal 2012, we recorded long-lived asset impairments totaling $1,662.3 million which consisted of non-cash goodwill impairment charges $1,063.0 million, $139.4 million, $254.6 million and $77.0 million at The Art Institutes, Argosy University, Brown Mackie Colleges and South University, respectively, and a non-cash indefinite-lived intangible asset impairment of $128.3 million.

Refer to Item 8, "Financial Statements," Note 4, "Property and Equipment" and Note 5, "Goodwill and Intangible Assets" for more information.

Interest expense, net

Net interest expense was $124.7 million in the fiscal 2013, an increase of $14.3 million, or 13.0%, from the prior fiscal year. The increase was primarily due to a higher variable interest rate following the amendment to our senior secured credit facility in March 2012 and the higher rate on the PIK Notes in connection with the exchange offer in March 2013. Refer to Item 8, "Financial Statements," Note 8, "Short-Term and Long-Term Debt" for more information.

Loss on debt refinancing

On March 5, 2013, we completed the exchange of $365.3 million of our 8.75% senior notes due June 1, 2014 for (i) $203.0 million of new senior notes and (ii) $162.3 million of cash. In connection with the exchange offer, we incurred fees of $5.2 million to third parties that were recorded as a loss on debt refinancing.

On March 30, 2012, we completed a refinancing of the $348.6 million portion of the $1.1 billion term loan under our senior secured credit facility that was due to expire in June 2013 by replacing it with $350.0 million of new term debt under the same credit agreement. The amendment was accounted for as an extinguishment of the original term loan. As a result, we recorded a loss on debt refinancing of $9.5 million in fiscal 2012.

Refer to Item 8, "Financial Statements", Note 8, "Short-Term and Long-Term Debt" for more information.

Provision for income taxes

The effective tax rates in fiscal 2013 and 2012 were significantly impacted by goodwill impairments, the majority of which were not deductible for income tax purposes. In addition, our 2013 effective tax rate was impacted by recording state tax credits and the benefits resulting from certain state tax refunds.

Refer to Item 8, "Financial Statements and Supplementary Data", Note 11, "Income Taxes" for more information.

Analysis of Operating Results by Reportable Segment

Each of our 110 schools provides student-centered education. Our schools are organized and managed to capitalize on recognized brands and align them with specific targeted markets based on field of study, employment opportunity, type of degree offering and student demographics, and our operations are organized into four corresponding reportable segments, which are The Art Institutes, Argosy University, Brown Mackie Colleges and South University. A summary of each reportable segment is detailed in Item 8, "Financial Statements and Supplementary Data," Note 17, "Segment Reporting."

Student information by segment was as follows:

	For the Fiscal Year Ended June 30,		
	2014	2013	2012
New students: (1)			
The Art Institutes	44,730	48,990	56,180
Argosy University	16,730	17,810	18,640
Brown Mackie Colleges	14,970	16,530	16,940
South University	18,210	18,020	27,560
Total EDMC	94,640	101,350	119,320
Average enrolled student body: (1) (2)			
The Art Institutes	61,070	66,440	74,550
Argosy University	23,260	24,910	28,190
Brown Mackie Colleges	15,560	17,070	18,880
South University	18,200	18,940	22,000
Total EDMC	118,090	127,360	143,620

(1) The data above includes the number of students enrolled in fully-online programs at The Art Institute of Pittsburgh, Argosy University and South University.

(2) Average enrolled student body is the twelve month average of the unique students who met attendance requirements within each month of the fiscal year.

The measure used by the chief operating decision maker to evaluate segment performance and allocate resources is EBITDA excluding certain expenses, which we define as net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization and certain other expenses. EBITDA excluding certain expenses is not a recognized term under accounting principles generally accepted in the United States of America ("GAAP") and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA excluding certain expenses is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Management believes EBITDA excluding certain expenses is helpful in highlighting trends because EBITDA excluding certain expenses excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of EBITDA excluding certain expenses may not be comparable to similarly titled measures of other companies. Adjustments to reconcile segment results to consolidated results are included under the caption "Corporate and other," which primarily includes unallocated corporate activity.

To ensure comparability among periods, EBITDA excluding certain expenses for each segment has been recast to report results for the fiscal years ended June 30, 2013 and 2012 as if The Center (defined in Item 8, "Financial Statements and Supplementary Data," Note 17, "Segment Reporting") existed in those periods and allocated its costs in a manner consistent with the current period methodology. The creation of The Center and changes in the allocation methodology had no impact on previously reported EBITDA excluding certain expenses for total EDMC. See Item 8, "Financial Statements and Supplementary Data," Note 17, "Segment Reporting" for a reconciliation of EBITDA excluding certain expenses by reportable segment to consolidated income before income taxes.

Net revenues and EBITDA excluding certain expenses by segment were as follows for fiscal 2014, 2013 and 2012 (in thousands):

	For the Fiscal Year Ended June 30,		
	2014	2013	2012
Net revenues:			
The Art Institutes	$ 1,386,729	$ 1,543,385	$ 1,738,542
Argosy University	321,118	356,544	397,458
Brown Mackie Colleges	265,606	298,175	314,801
South University	299,283	300,495	310,166
Total EDMC	$ 2,272,736	$ 2,498,599	$ 2,760,967
EBITDA excluding certain expenses: *			
The Art Institutes	$ 268,530	$ 352,036	$ 480,518
Argosy University	29,880	39,068	57,346
Brown Mackie Colleges	22,007	32,154	55,755
South University	41,260	46,613	10,560
Corporate and other	(85,538)	(89,654)	(94,298)
Total EDMC	$ 276,139	$ 380,217	$ 509,881

* EBITDA excluding certain expenses excludes the following:
- long-lived asset impairments in fiscal 2014, 2013 and 2012;
- losses on debt refinancing in fiscal 2013 and 2012;
- restructuring expenses in fiscal 2014, 2013 and 2012;
- lease abandonment charge in fiscal 2014;
- settlement-related costs in fiscal 2014; and
- losses on sale-leaseback transactions in fiscal 2014 and 2013.

Refer to Item 8, "Financial Statements and Supplementary Data," Note 17, "Segment Reporting" for more information

Additionally, depreciation and amortization expense is excluded from EBITDA excluding certain expenses, which was as follows by segment (in thousands):

Depreciation and amortization:	For the Fiscal Year Ended June 30, 2014	2013	2012
The Art Institutes	$ 76,224	$ 80,854	$ 79,618
Argosy University	15,639	17,186	17,807
Brown Mackie Colleges	20,816	22,844	24,213
South University	13,029	13,406	12,846
Corporate and other	26,793	30,422	24,179
Total EDMC	$ 152,501	$ 164,712	$ 158,663

Year Ended June 30, 2014 (Fiscal 2014) Compared with the Year Ended June 30, 2013 (Fiscal 2013)

All basis point changes are presented as a change in the percentage of net revenues in each year of comparison.

The Art Institutes

Net revenues decreased 10.2% to $1,386.7 million in fiscal 2014 from fiscal 2013 due primarily to a decrease in average enrolled student body of 8.1%, or approximately 5,370 students. In addition, new student enrollment decreased by 8.7% compared to fiscal 2013 to approximately 44,730 students in fiscal 2014. The decreases in these student enrollment measures were primarily the result of the factors described under "Key Trends, Developments and Challenges" above. In addition, The Art Institutes awarded a larger amount of scholarships to students in the current fiscal year compared to the prior fiscal year, which further contributed to the year-over-year decrease in net revenues.

The declines in average enrolled student body and net revenues contributed to a 23.7% decrease compared to the prior fiscal year in EBITDA excluding certain expenses, which was $268.5 million in fiscal 2014. Primarily as a result of our efforts to keep costs aligned with current enrollment levels, operating expenses, excluding depreciation and amortization, decreased by 6.1% year-over-year.

However, operating expenses increased as a percentage of net revenues in the current fiscal year due primarily to reduced operating leverage from employee-related costs for non-marketing personnel and rent expense. Additionally, uncollectible amounts increased in the current year compared to the prior year primarily due to an increase in the extension of credit to our students largely attributable to reduced PLUS loan availability under Title IV programs beginning in the fourth quarter of fiscal 2012. Also contributing to the increase in operating expenses as a percentage of net revenues were legal and consulting services costs, the latter of which was incurred in part to assist future process optimization and centralization efforts to support student affordability. Partially offsetting the above increases was a decrease in marketing and admissions due primarily to continued improvement in admissions productivity.

Argosy University

Net revenues decreased 9.9% to $321.1 million in fiscal 2014 compared to fiscal 2013 due primarily to a decrease in average enrolled student body of 6.6%, or approximately 1,650 students. In addition, new student enrollment decreased by 6.1% compared to fiscal 2013 to approximately 16,730 students in fiscal 2014. The decreases in these student enrollment measures were primarily the result of fewer new students enrolling in Argosy University's fully-online courses.

The declines in average enrolled student body and net revenues contributed to a 23.5% decrease compared to the prior year in EBITDA excluding certain expenses, which was $29.9 million in fiscal 2014. Although operating expenses were higher as a percentage of net revenues compared to the prior year, actual costs decreased compared to the prior year primarily due to previously implemented staffing adjustments intended to align costs with enrollment levels as well as lower marketing costs.

Brown Mackie Colleges

Net revenues decreased 10.9% to $265.6 million in fiscal 2014 compared to fiscal 2013 due primarily to a decrease in average enrolled student body of 8.8%, or approximately 1,510 students. In addition, new student enrollment decreased by 9.4% compared to fiscal 2013 to approximately 14,970 students in fiscal 2014. The decreases in these student enrollment measures were primarily the result of the factors described under "Key Trends, Developments and Challenges" above. The decreases in average enrolled student body and net revenues contributed to a 31.6% year over year decrease in EBITDA excluding certain expenses, to $22.0 million, at Brown Mackie Colleges in fiscal 2014 compared to fiscal 2013.

South University

Net revenues were relatively flat in fiscal 2014 compared to fiscal 2013, decreasing 0.4% due primarily to a decrease in average enrolled student body of 3.9%, or approximately 740 students. The decrease in average enrolled student body was partially offset by an increase in average revenue per student of 3.6% in the current year compared to the prior year due to a greater mix of campus-based students relative to fully-online students.

South University's EBITDA excluding certain expenses decreased by $5.4 million from the prior fiscal year to $41.3 million in the current fiscal year, which was primarily due to an increase in employee-related costs of non-marketing personnel and outside services costs compared to prior year.

Year Ended June 30, 2013 (Fiscal 2013) Compared with the Year Ended June 30, 2012 (Fiscal 2012)

All basis point changes are presented as a change in the percentage of net revenues in each year of comparison.

The Art Institutes

Net revenues decreased 11.2% to $1,543.4 million in fiscal 2013 from fiscal 2012 due primarily to a decrease in average enrolled student body of 10.9%, or approximately 8,110 students. In addition, new student enrollment decreased by 12.8% compared to fiscal 2012 to approximately 48,990 students in fiscal 2013. The decreases in these student enrollment measures were primarily the result of the factors described under "Key Trends, Developments and Challenges" above.

Contributing to the decrease in new student enrollment was a decrease in the volume of applications received from prospective students at The Art Institutes compared to fiscal 2012. Additionally, the rate at which students who completed an application and enrolled in one of our programs, which we refer to as our "start rate," declined for The Art Institutes compared to the prior year. This decrease in start rate was due in part to the difficulty many traditional-aged students are having financing their education due to the decreased availability of PLUS program loans.

The declines in average enrolled student body and net revenues contributed to a 26.7% decrease in EBITDA excluding certain expenses, which was $352.0 million at The Art Institutes in fiscal 2013 compared to fiscal 2012. Although operating expenses were higher as a percentage of net revenues compared to the prior year due primarily to a loss of operating leverage from lower average enrolled student body, as well as additional marketing and scholarship investments, actual costs decreased compared to the prior year primarily due to staffing adjustments to align costs with enrollment levels. However, bad debt expense increased on an absolute basis compared to the prior year primarily due to the extension of credit to students enrolled at The Art Institutes as a result of changes in the availability of PLUS program loans under Title IV programs beginning in fiscal 2012.

Argosy University

Net revenues decreased 10.3% to $356.5 million in fiscal 2013 compared to fiscal 2012 due primarily to a decrease in average enrolled student body of 11.6%, or approximately 3,280 students. In addition, new student enrollment decreased by 4.5% compared to fiscal 2012 to approximately 17,810 students in fiscal 2013. The decreases in these student enrollment measures were primarily the result of fewer new students enrolling in Argosy University's fully-online courses.

Despite the decreases in new student enrollment, application volume for prospective students increased throughout fiscal 2013 compared to fiscal 2012. New student cohort retention, which we measure 180 days after the initial start of the academic term, improved during fiscal 2013 compared to the prior year.

The declines in average enrolled student body and net revenues contributed to a 31.9% decrease in EBITDA excluding certain expenses, which was $39.1 million, at Argosy University in fiscal 2013 compared to fiscal 2012. Although operating expenses were higher as a percentage of net revenues compared to the prior year, actual costs decreased compared to the prior year primarily due to previously implemented staffing adjustments intended to align costs with enrollment levels as well as lower marketing costs.

Brown Mackie Colleges

Net revenues decreased 5.3% to $298.2 million in fiscal 2013 compared to fiscal 2012 due primarily to a decrease in average enrolled student body of 9.6%, or approximately 1,810 students. In addition, new student enrollment decreased by 2.4% compared to fiscal 2012 to approximately 16,530 students in fiscal 2013. The decreases in these student enrollment measures were primarily the result of the factors described under "Key Trends, Developments and Challenges" above.

The above decreases in average enrolled student body and net revenues contributed to a 42.3% year over year decrease in EBITDA excluding certain expenses, to $32.2 million, at Brown Mackie Colleges in fiscal 2013 compared to fiscal 2012. Operating expenses increased 3.6% in fiscal 2013 compared to fiscal 2012, due in part to margin erosion resulting from the transition of this segment's students from traditional book sales to the use of digital tablets and electronic books in the current fiscal year. Rent expense also increased in fiscal 2013 compared to fiscal 2012 due primarily to the comparative effect of a favorable rent credit at one of our leased school locations in fiscal 2012.

South University

Net revenues were relatively flat in fiscal 2013 compared to fiscal 2012, decreasing only 3.1% despite a decline in average enrolled student body of 13.9%, or approximately 3,060 students, and a new student enrollment decline of 34.6% compared to fiscal 2012 to 18,020 students in fiscal 2013. The decrease in average enrolled student body was partially offset by an increase in average revenue per student of 12.5% in fiscal 2013 compared to fiscal 2012 due to a greater mix of campus-based students relative to fully-online students.

The decreases in student enrollment at South University in fiscal 2013 compared to fiscal 2012 were primarily the result of fewer students enrolling in South University's fully-online programs. South University made substantial marketing strategy and operational changes for fully-online programs at the beginning of fiscal 2013 in order to more effectively attract students who it believes are more likely to apply, start and persist towards completion of their academic programs. These changes resulted in substantially fewer new students but better performance on quality metrics such as new student cohort retention, which improved significantly throughout the year for both campus-based and fully-online programs. In addition, average enrolled student body and new student enrollment, as well as application volume, increased in fiscal 2013 for campus-based programs compared to fiscal 2012.

South University's EBITDA excluding certain expenses increased to $46.6 million in fiscal 2013 compared to $10.6 million in the prior year. The increase of $36.1 million in EBITDA excluding certain expenses year over year was primarily due to the marketing and operational changes described above, which resulted in lower marketing and admissions expenses in fiscal 2013 compared to fiscal 2012.

Liquidity and Funds of Capital Resources

We finance our operating activities primarily by cash generated from operations, and our primary source of cash is tuition collected from our students. Most of the students at our institutions based in the United States rely, at least in part, on financial assistance programs to pay for their education, the most significant of which are federal student aid programs under Title IV of the HEA.

Debt Restructuring

At June 30, 2014, we had $1.5 billion of indebtedness outstanding, which consisted of approximately $1.3 billion outstanding on our senior credit facility, consisting of approximately $1.1 billion of term loans and $220.0 million drawn on a revolving credit facility, and approximately $216.0 million of Cash Pay/PIK Notes. We have experienced deteriorating results from operations over the last several fiscal years due to the stagnant U.S. economy, the substantial decrease in the availability of private lending sources to fund tuition and fees, the loss of federal and state support for student financial aid, the impact of adverse publicity related to the proprietary education industry, student concerns about incurring debt to fund their education, the impact of new regulations, and our inability to increase tuition rates, among other factors. Our net revenues were $2.9 billion, $2.8 billion, $2.5 billion and $2.3 billion in fiscal 2011, fiscal 2012, fiscal 2013 and fiscal 2014, respectively.

We announced in May 2014 that we did not anticipate being in compliance as of June 30, 2014 with the maximum total leverage ratio and minimum interest coverage ratio financial covenants included in our senior credit facility. In order to address our covenant compliance and debt maturity issues, we engaged in negotiations with our creditors and, after obtaining a waiver of the financial covenants through September 15, 2014, entered into the following agreements:

- the Amendment Agreement, pursuant to which, among other things, (i) the maturity on the revolving credit facility was extended from June 1, 2015 to July 2, 2015, (ii) the Consenting Lenders under the revolving credit facility agreed to accept payment of interest in kind rather than cash through June 30, 2015, (iii) the Consenting Lenders holding term loans agreed that no amortization payments will be payable through June 30, 2015 and to accept the payment of interest in kind rather than cash through June 30, 2015, (iv) EDMC became a guarantor and granted a lien on substantially all of its assets to secure the obligations under the agreement, (v) compliance with the financial covenants was waived through June 30, 2015, and (vi) the security agreement governing the credit facility was amended such that the collateral proceeds “waterfall” set forth therein now provides that obligations owing to any lenders that are not Consenting Lenders shall be paid only after satisfaction in full of obligations owing to Consenting Lenders and swap counterparties who have executed the RSA;
- the Supplemental Indenture, pursuant to which the Indenture governing the Cash Pay/PIK Notes was amended (i) to require us to offer all holders of the Cash Pay/PIK Notes the opportunity to receive the same consideration in the Debt Restructuring as holders of the Interim Notes, (ii) to provide for (a) the release of EDMC’s guarantee and (b) the termination of certain covenants and certain events of default, in each case upon the completion of the exchange of Cash Pay/PIK Notes and Interim Notes contemplated by the Debt Restructuring and (iii) to provide that if Education Management LLC is no longer subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, it will not be required to file reports with the Securities and Exchange Commission but instead will be required to distribute annual, quarterly and current reports to the trustee under the Indenture and hold a conference call within 20 business days of furnishing required annual and quarterly reports;
- the Exchange Agreement, pursuant to which the holders of in excess of 86% of the outstanding Cash Pay/PIK Notes exchanged their Cash Pay/PIK Notes for a like principal amount of new Interim Notes, whose terms are substantially similar to those of the Cash Pay/PIK Notes, except that their interest is payable entirely in kind for the two interest periods ending September 30, 2014 and March 30, 2015;
- the New Indenture, pursuant to which the Interim Notes were issued; and
- the RSA, pursuant to which the Consenting Lenders, the Consenting Noteholders and the Consenting Shareholders agreed to support the Debt Restructuring.

Pursuant to the Debt Restructuring:

- $150 million of revolving loans under our existing revolving credit facility will be repaid in cash at par, with such amount available for re-borrowing under a new revolving credit facility;
- the remaining portion of our $1.5 billion of outstanding indebtedness, including the Interim Notes, will be exchanged for two first lien senior secured term loans due July 2, 2020 in the aggregate principal amount of $400 million, mandatorily convertible preferred stock, optionally convertible preferred stock and warrants for common stock; and
- the Company’s current shareholders will retain their outstanding common stock, which in aggregate will equal 4% of the Company’s outstanding common stock after giving effect to the conversion of all of the preferred stock described above and subject to further dilution by the MIP and warrants (including those described in the next sentence) to be awarded pursuant to the Debt Restructuring. In addition, current shareholders will receive warrants for 5% of the Company’s common stock (subject to dilution by the MIP).

The mandatory or voluntary conversion, as the case may be, of new preferred stock and the exercise of warrants in connection with the Debt Restructuring is subject to a shareholder vote and regulatory approval (including from the U.S. Department of Education, accrediting agencies and state licensing agencies), which the Company anticipates obtaining in 2015.

The Amendment Agreement and New Indenture were effective upon execution and therefore, eliminate a significant portion of our interest and principal payments for 2015. In addition to the cash flow savings created through the Amendment Agreement and the Interim Notes pursuant to the New Indenture, we are also undertaking steps to reduce cash flow spending in fiscal 2015. We have developed a detailed cash savings plan and have started to execute these actions in the first quarter of fiscal 2015. Based on the amendments to the senior credit facility, the exchange of Cash Pay/PIK Notes for Interim Notes and the projected cash flow savings actions, we believe that cash flow from operations, available cash on hand supplemented from time to time with borrowings under our revolving credit facility, will provide adequate funds for ongoing operations and new debt service during the next twelve months.

Operating cash flows

Cash provided by operating activities for the fiscal year ended June 30, 2014 was $70.6 million compared to a $191.3 million inflow in the prior year. Current year cash flows were comparatively lower primarily because of reduced operating performance.

We collected the substantial majority of our consolidated net revenues during fiscal 2014 from the receipt by students of Title IV financial aid program funds. The extent to which we extend credit to our students has increased over the last several years due to decreases in the availability of PLUS program and private loans for students, and we expect this trend to continue in the future. We extend credit to students to help fund the difference between our total tuition and fees and the amount covered by other sources, including amounts awarded under Title IV programs, private loans obtained by students, and cash payments by students. We have also extended the repayment period for financing made available to students beyond graduation, most recently from a maximum of 36 months beyond graduation to a maximum of 42 months beyond graduation in October 2012. The total amount of gross receivables that extend beyond twelve months approximated $61.5 million at June 30, 2014 and $52.2 million at June 30, 2013, which excludes amounts outstanding under a program that commenced in the fourth quarter of fiscal 2013 under which we purchase loans awarded and disbursed to our students from a private lender. We do not expect any increased activity to have a material impact to our cash flow from operations in fiscal 2015 as there would be greater use of our payment plans absent this program.

The additional extension of credit has contributed to an increase in uncollectible amounts in the current year compared to the prior year. Because these funding sources are not federal student loans, our students' extended payment plans do not directly affect our published federal student loan cohort default rates. However, these funding sources may have an indirect negative impact on the federal student loan cohort default rates because our students effectively may have more total debt upon graduation.

Our student receivables balance reaches a peak immediately after the billing of tuition and fees at the beginning of each academic period. We collect the majority of these receivables at or near the start of each academic period when we receive federal financial aid proceeds and cash payments from continuing students. Because the academic terms of our programs do not all coincide with our quarterly reporting periods, we may have quarterly fluctuations in cash receipts, reported net cash flow from operations, net accounts receivable, unearned tuition and advance payment balances. For the fiscal year ended June 30, 2014, there were no significant changes to the start dates of academic terms in session as compared to the prior year period.

The significant majority of our facilities are leased under operating lease agreements, and we anticipate that future commitments on existing leases will be satisfied from cash provided from operating activities. We also expect to extend the terms of leases that will expire in the near future or enter into similar long-term commitments for comparable space.

Non-Term Academic Structure

Although the majority of our students receive aid based on a term-based structure, under which all students begin programs and are eligible to receive financial aid at periodic start dates pursuant to a calendar-based term system, those students attending fully-online programs offered by South University and Argosy University receive aid based on a non-term academic structure, under which each student may begin a program and be eligible to receive financial aid as they demonstrate successful academic progress. For students attending fully-online programs, we believe a non-term academic structure provides greater ease and flexibility by providing for rolling and flexible start dates. The non-term academic structure also assists in ensuring that students do not over borrow in the early years of a program, which could result in aggregate loan limits being exceeded prior to graduation and reduces the amount of stipends (i.e., living expenses) students are eligible to receive.

Under a non-term academic structure, Direct Loans and Pell grants are typically provided in two equal disbursements each academic year. The first disbursement is usually received during the first course of a payment period, and a student's second disbursement cannot be received until the student has successfully completed the courses that were previously funded. These factors, together with the timing of when students begin their programs, affect our operating cash flow. In a quarterly term-based Title IV program environment, disbursements are generally based on three academic terms per academic year, and institutions operating on this basis are generally allowed to draw most of a student's financial aid at the start of a term as long as the student is enrolled at least as a half-time student. The majority of the cash received in a term-based environment is recorded as unrestricted cash and unearned tuition at the beginning of the term. However, in a non-term environment, we record Title IV amounts that we have already received for courses that a student has not begun to attend as restricted cash. The cash is classified as restricted because we do not intend to use the funds for operating purposes until a student successfully demonstrates academic progress with respect to each course the student attends in the student's program of study. At June 30, 2014 and 2013, restricted cash balances include $35.1 million and $39.3 million, respectively, related to aid we received from non-term students for classes that had not yet begun.

Investing cash flows

Capital expenditures were $73.8 million, or 3.2% of net revenues, in fiscal 2014, compared to $83.2 million, or 3.3% of net revenues, in fiscal 2013. The decrease in capital expenditures as a percentage of net revenues was primarily due to reductions in existing facility expansions as a result of enrollment declines and decreased investment in capital intensive programs.

Reimbursements for tenant improvements represent cash paid for capital expenditures in which the terms of the applicable lease agreements require the lessors to reimburse us for leasehold improvements.

We completed a sale-leaseback transaction in fiscal 2014 with an unrelated third party for net proceeds of $9.6 million, and in fiscal 2013, we completed five sale-leaseback transactions with unrelated third parties for net proceeds of $65.1 million. In both years, we entered into operating lease agreements with the purchasers for all properties at initial lease terms ranging from three to 15 years.

Refer to Item 8, "Financial Statements and Supplementary Data," Note 4, "Property and Equipment" for more information.

Financing cash flows

As a result of the Transaction, we were highly leveraged and had significant debt service requirements. As of June 30, 2014, we had $1,503.4 million in aggregate indebtedness outstanding, including $231.8 million due within the next twelve months, which included $219.9 million of our revolving credit facility. The largest portion of our debt was a senior secured credit facility, consisting of $1.1 billion of term loans and a $328.3 million revolving credit facility, that we obtained in connection with the Transaction. However, in September 2014, we completed negotiations with our debt holders that significantly reduced our future debt service requirements. Refer to "Debt Restructuring" above for more details.

At June 30, 2014, we had issued an aggregate of $307.6 million in letters of credit, the majority of which are issued to the U.S. Department of Education, which requires us to maintain one or more letters of credit due to our failure to satisfy certain regulatory financial ratios after giving effect to the Transaction. The amount of the letter of credit requirement in favor of the U.S. Department of Education was $302.2 million at June 30, 2014, which equals 15% of the total Title IV aid received by students attending our institutions during fiscal 2013.

In order to fund the current letter of credit obligation to the U.S. Department of Education, we used all $200.0 million of capacity under our cash secured letter of credit facilities and $102.2 million of letter of credit capacity under the revolving credit facility. Letters of credit outstanding under the revolving credit facility reduce the amount available for borrowing; therefore, including $219.9 million of outstanding borrowings on the revolving credit facility at June 30, 2014, we had $0.8 million available to borrow under the revolving credit facility at June 30, 2014.

Regulatory Environment

In October 2010, the U.S. Department of Education issued new regulations pertaining to certain aspects of the administration of the Title IV programs, including, but not limited to state authorization; disclosure of information related to gainful employment; compensation for persons and entities engaged in certain aspects of recruiting, admissions and student financial aid; determination of attendance; and definition of credit hours. With minor exceptions, these regulations became effective July 1, 2011.

See Part I, Item 1 “Business — Student Financial Assistance — Program Integrity Regulations.”

Contractual obligations

The following table describes our commitments as of June 30, 2014 under various contracts and agreements. Under "Debt Restructuring," the amendment to the senior credit facility and the terms of the new Indenture were effective upon execution and therefore, eliminate a significant portion of our interest and principal payments for 2015. Refer to "Debt Restructuring" above for more information.

		Payments due by fiscal year ending June 30 (in thousands)					
	Total amounts committed	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Revolving credit facility	$ 219,890	$ 219,890	$ —	$ —	$ —	$ —	$ —
Term loan, maturing on June 1, 2016	728,369	8,085	720,284	—	—	—	—
Term loan, maturing on March 31, 2018, gross of discount of $2,288 (1)	341,471	3,790	3,788	3,753	330,140	—	—
Senior cash pay/PIK notes due 2018, including discount of $22,335 and PIK interest of $17,700 (2)	255,944	—	—	—	—	255,944	—
Total short-term and long-term debt	1,545,674	231,765	724,072	3,753	330,140	255,944	—
Interest payments (3)	342,220	118,220	94,683	62,990	66,234	93	—
Operating leases, extending through 2029	1,017,193	184,954	149,890	142,686	125,514	110,384	303,765
Unconditional purchase obligations	24,917	24,883	34	—	—	—	—
Total commitments	$ 2,930,004	$ 559,822	$ 968,679	$ 209,429	$ 521,888	$ 366,421	$ 303,765

(1) A $3.7 million discount was capitalized as a reduction to the term loan maturing on March 31, 2018 at the time of the March 30, 2012 refinancing, which is being charged to interest expense over the life of the debt through the maturity date. The balance above is presented gross of this discount in order to reflect future cash flows. Refer to Item 8, "Financial Statements and Supplementary Data," Note 8, "Short-Term and Long-Term Debt" for more information.

(2) The senior cash pay/PIK notes due 2018 are required to be paid at a premium of 13% at their contractual maturity, which is being treated as an original issuance discount for accounting purposes. This premium is included in the future cash flows to be paid at maturity on July 1, 2018. Additionally, PIK interest is also included in future cash flows to be paid at maturity. Refer to Item 8, "Financial Statements and Supplementary Data," Note 8, "Short-Term and Long-Term Debt" for more information.

(3) Interest payments are based on either the fixed rate or the variable rate as of June 30, 2014 and assume that repayments are in accordance with the loan agreements without giving effect to mandatory prepayments.

Contingencies

See Item 8, “Financial Statements and Supplementary Data,” Note 14, “Commitments and Contingencies."

Off Balance Sheet Arrangements

At June 30, 2014, we have provided $19.3 million of surety bonds primarily to state regulatory agencies through four different surety providers. We are required to maintain a deposit in a collateral account for a portion of the bond amount outstanding, which has resulted in $7.3 million being classified as restricted cash at June 30, 2014.

Indebtedness

For information on our debt structure at June 30, 2014, which has been superseded by the Debt Restructuring, refer to Item 8, "Financial Statements and Supplementary Data," Note 8, "Short-Term and Long-Term Debt." In the event that we consummate the Debt Restructuring, existing debt and interest rate swap agreements would be exchanged for the following under the terms of the RSA:

- A new revolving facility with a maturity date of March 31, 2019 with an aggregate commitment of approximately $258 million, of which approximately $108 million would be available only for the issuance of letters of credit and $150 million would be available for revolving loans or up to an additional $100 million of letters of credit. Upon consummation of the restructuring, the new revolving facility is expected to have $108 million of letters of credit outstanding, and to otherwise be undrawn;

- A $150 million term loan due July 2, 2020 at an interest rate of LIBOR plus 450 basis points;

- A $250 million term loan due July 2, 2020 at an interest rate of LIBOR plus 750 basis points, with cash interest equal to 2% of the principal balance for the first two years and the remainder of the interest payable in kind during such period at the election of the borrower; and

- The maturity date on our two outstanding cash secured letters of credit which provide for the issuance of up to $200 million of letters of credit will be extended to March 31, 2019.

The Consenting Creditors will also receive preferred stock which will convert automatically into common stock upon the consummation of the transaction and transfer voting control of EDMC to the Consenting Creditors, which will constitute a change in control requiring approval of the U.S. Department of Education and numerous institutional accrediting agencies, state licensing agencies and programmatic accreditors. In the event that we do not consummate the Debt Restructuring in accordance with the RSA, the Consenting Creditors may terminate the RSA and we will be required to refinance or satisfy the terms of our existing indebtedness, including our $328.0 million revolving credit facility which matures on July 2, 2015. Our compliance with the deadlines in the RSA is subject to a number of regulatory agencies interpreting their own regulations and responding to us on a timely basis and approving the transfer of voting control of EDMC to the Consenting Creditors.

Regulations

U.S. Department of Education regulations require Title IV program funds received by our schools in excess of the tuition and fees owed by the relevant students at that time to be, with these students’ permission, maintained and classified as restricted funds until they are billed for the portion of their education program related to those funds. Funds transferred through electronic funds transfer programs are held in a separate cash account and released when certain conditions are satisfied. These restrictions have not significantly affected our ability to fund daily operations.

Education institutions participating in Title IV programs must satisfy a series of specific standards of financial responsibility. The U.S. Department of Education has adopted standards to determine an institution’s financial responsibility to participate in Title IV programs. The regulations establish three ratios: (i) the equity ratio, intended to measure an institution’s capital resources, ability to borrow and financial viability; (ii) the primary reserve ratio, intended to measure an institution’s ability to support current operations from expendable resources; and (iii) the net income ratio, intended to measure an institution’s profitability. Each ratio is calculated separately, based on the figures in the institution’s most recent annual audited financial statements, and then weighted and combined to arrive at a single composite score. The composite score must be at least 1.5 in order for the institution to be deemed financially responsible without conditions or additional oversight. If an institution fails to meet any of these requirements, the U.S. Department of Education may set restrictions on the institution’s eligibility to participate in Title IV programs. Institutions are evaluated for compliance with these requirements as part of the U.S. Department of Education’s renewal of certification process and also annually as each institution submits its audited financial statements to the U.S. Department of Education.

Following the Transaction, the U.S. Department of Education separately considered our and our schools’ compliance with the financial responsibility requirements on a consolidated basis. Due to the amount of indebtedness we incurred and goodwill we recorded in connection with the Transaction, we have not met the required quantitative measures of financial responsibility on a consolidated basis since the Transaction, including as of June 30, 2014. As a result, all of our institutions have been provisionally certified to participate in Title IV programs and we are required to post a letter of credit with the U.S. Department of Education. The amount of the letter of credit is currently set at 15% of the Title IV program funds received by students at our schools during fiscal 2013, or $302.2 million. While provisional certification does not by itself limit an institution's access to Title IV program funds, it does subject our institutions to closer review by the U.S. Department of Education and possible summary adverse action if one of our institutions commits a material violation of Title IV program requirements. Additionally, the U.S. Department of Education has placed our institutions on heightened cash monitoring Level 1 due to the provisional certification and has included a requirement in our program participation agreements that we obtain their approval prior to offering new programs at some of our institutions. These restrictions, along with the letter of credit requirement, will be in effect until at least June 2015 and are likely to continue beyond that date. Furthermore, because we are provisionally certified, the U.S. Department of Education has the discretion to change the amount of our required letter of credit and to impose additional conditions or limitations, including additional restrictions on our receipt of Title IV funds. Outstanding letters of credit reduce the availability under our revolving credit facility, and in the future, we may not have sufficient letter of credit capacity under our revolving credit facility and cash secured letter of credit facilities to satisfy the letter of credit requirement for the U.S. Department of Education. No assurance can be given that additional restrictions which may be imposed by the U.S. Department of Education due to our failure to satisfy the financial responsibility standards will not materially and adversely impact our revenues and cash flows.

Under a provision of the HEA commonly referred to as the “90/10 Rule”, an institution will cease to be eligible to participate in Title IV programs if, on a cash accounting basis, more than 90% of its revenues for each of two consecutive fiscal years were derived from Title IV programs. If an institution loses its Title IV eligibility under the 90/10 Rule, it may not reapply for eligibility until the end of two fiscal years. Institutions that fail to satisfy the 90/10 Rule for one fiscal year are placed on provisional certification. For our institutions that disbursed federal financial aid during fiscal 2014, the percentage of revenues derived from Title IV programs ranged from approximately 55% to 81%, with a weighted average of approximately 76% in fiscal 2014 compared to a range of 56% to 82%, with a weighted average of approximately 76% in fiscal 2013.

The following table shows the 90/10 ratio for each of our institutions for the fiscal year ended June 30, 2014:

Institution	90/10 Ratio
Brown Mackie College - Salina	81%
The Art Institute of Pittsburgh	81%
South University	80%
The Art Institute of Phoenix	80%
Argosy University	77%
The Illinois Institute of Art - Chicago	76%
The Art Institute of New York City	74%
The Art Institute of Philadelphia	74%
The Art Institute of York - Pennsylvania	72%
The Art Institute of Fort Lauderdale	72%
The Art Institute of Atlanta	71%
The Art Institute of Portland	70%
The New England Institute of Art	69%
The Art Institute of Houston	68%
The Art Institutes International Minnesota	67%
The Art Institute of Colorado	63%
Miami International University of Art & Design	58%
The Art Institute of Seattle	55%

Continued decreases in the availability of state grants, together with the inability of households to pay cash due to the current economic climate and decreased availability of private loans, have adversely impacted our ability to comply with the 90/10 Rule because state grants generally are considered cash payments for purposes of the 90/10 Rule. During fiscal 2014, students attending our schools received financial aid from military sources representing approximately $195 million of our net revenues, of which the significant majority was from the U.S. Department of Veteran Affairs and a lesser amount was from the U.S. Department of Defense. Some members of Congress have proposed substantially decreasing the amount of education benefits available to veterans and the budget for the U.S. Department of Defense in connection with the current federal budget issues. A material decrease to the funding of military education benefit programs would have a materially adverse effect on our ability to comply with the 90/10 Rule. If any of our institutions violates the 90/10 Rule, its ineligibility to participate in Title

IV programs for at least two years would have a material adverse effect on our enrollments, net revenues and results of operations.

Use of Estimates and Critical Accounting Policies

General

In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America, judgments and estimates are made about the amounts reflected in the consolidated financial statements that affect the reported amounts of assets, liabilities, net revenues and expenses during the reporting period. As part of the financial reporting process, management collaborates to determine the necessary information on which to base judgments and develop estimates used to prepare the consolidated financial statements. Historical experience and available information are used to make these judgments and estimates. However, different amounts could be reported using different assumptions and in light of changes in facts and circumstances. Therefore, actual amounts could differ from the estimates reflected in the consolidated financial statements appearing elsewhere in this Form 10-K.

We believe that the following critical accounting policies comprise the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition and Receivables

We bill tuition and housing revenues at the beginning of an academic term and recognize the revenue on a pro rata basis over the term of instruction or occupancy. Some of our academic terms have starting and ending dates that differ from our fiscal quarters. Therefore, at the end of each fiscal quarter, we may have tuition from these academic terms for which the associated revenue has not been earned. Such amounts are recorded as unearned tuition as a current liability in the accompanying consolidated balance sheets. Advance payments are generally refundable and relate to payments received for future academic periods and are also recorded as a current liability in the accompanying consolidated balance sheets. We recognize revenue at the time of the sale in the case of certain point-of-sale transactions, such as bookstore sales.

If a student withdraws from one of our schools, the extent of his or her obligation for tuition and fees is limited depending on when the student withdraws during an academic term. We reduce the student's obligation to us depending upon our refund policies, which vary by state and institution and take into account the refund requirements of the U.S. Department of Education, most state education authorities that regulate our schools, the accrediting commissions that accredit our schools and individual institutional policies (collectively, "Refund Policies"). In the vast majority of situations, if a student withdrew from school after attending classes for at least 60.0% of a term of instruction, he or she would not be eligible for any reduction in tuition under our Refund Policies. Accordingly, the student would have to pay us the balance of the tuition and fees that we have not received already either in the form of financial aid or payments from the student. If a student withdraws from school prior to attending classes for at least 60.0% of a term of instruction, however, we may reduce the amount of a student's obligation for tuition and fees based on a tiered approach under which, in general, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student's obligation is to the school for the tuition and fees related to that academic term.

Based on the application of our refund policies, we may be entitled to incremental revenue on the day the student withdraws from one of our schools. Prior to fiscal 2014, we recorded this incremental revenue, related student receivable and an estimate of the amount we did not expect to collect as bad debt expense during the fiscal quarter a student withdrew. Effective in fiscal 2014, we reassess collectability when a student withdraws from the institution (i.e., is no longer enrolled) and record incremental revenue after a student's withdrawal from school based on cash received. This correction in our policy had the effect of reducing net revenues and student receivables by $36.7 million and bad debt expense and the corresponding allowance for doubtful accounts by $33.2 million, which resulted in an increase to the loss before taxes of $3.5 million in the fiscal year ended June 30, 2014. Prior year amounts were not corrected because the effects were not material.

Student receivable balances consist of amounts related to net revenues from current or former students for academic terms that have been completed or are currently in session, prior periods of occupancy in our housing facilities for which payment has not been received or obligations of current students for tuition, housing or other items related to academic terms in progress for which payment has not been received. The balances are comprised of individually insignificant amounts due from students who primarily reside in the United States and Canada.

We record student receivables at cost less an estimated allowance for doubtful accounts. We determine the allowance for doubtful accounts by categorizing gross receivables based upon the enrollment status of the student. The allowance is established based on the likelihood of collection considering our historical experience, which is updated on a quarterly basis. The methodology results in a higher reserve rate for out-of-school students compared to in-school students. Student accounts are monitored through an aging process whereby past due accounts are pursued. When certain criteria are met, which is generally when receivables age past the due date by more than four months, and internal collection measures have been taken without success, the accounts of former students are placed with a collection agency. Student accounts that have been placed with a collection agency are reserved for at a high rate and are written off after collection attempts have been unsuccessful.

For sensitivity purposes:

- a one percentage point change in our allowance for doubtful accounts as a percentage of gross current and non-current student receivables at June 30, 2014 would have resulted in a pre-tax change in income of approximately $4.1 million.
- if our bad debt expense were to change by one percent of net revenue for the fiscal year ended June 30, 2014, we would have recorded a pre-tax change in income of approximately $22.7 million.

Impairment of Property, Equipment and Finite-Lived Intangible Assets

We record impairment losses on property and equipment and finite-lived intangible assets when events and circumstances indicate the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. Events and circumstances that could trigger an impairment review include changes in the regulatory environment, deteriorating economic conditions or poor operating performance at individual campus locations. Any resulting impairment loss would be measured as the difference between the fair value of the assets and their carrying value with the loss recorded as an operating expense in the consolidated statement of operations in the period incurred.

During fiscal 2014, we recorded an impairment of long-lived assets of $6.1 million in the consolidated statement of operations as estimated future cash flows at 3 of our Brown Mackie College locations were insufficient to support the carrying values of their property and equipment. We also recorded a $3.6 million impairment of definite-lived curriculum intangible assets in fiscal 2014 at Argosy University as the estimated future cash flows could not support the carrying value. During the fiscal year ended June 30, 2013, we recorded an impairment of $1.2 million on the net property and equipment because anticipated future cash flows at one of our schools could not support the carrying value of its property and equipment.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

In connection with the Transaction, property, equipment, intangible assets other than goodwill and other assets and liabilities were recorded at fair value as of June 1, 2006. The excess of the amount paid to acquire the Company at the time of the Transaction over the fair values of these net assets represented the intrinsic value of the Company beyond its tangible and identifiable intangible net assets and was assigned to goodwill. In connection with the Transaction, we recorded approximately $2.6 billion of goodwill, which was allocated to our four reporting units: The Art Institutes, Argosy University, Brown Mackie Colleges and South University. The goodwill balance attributed to the Brown Mackie Colleges reporting unit was fully written off in connection with an impairment charge incurred during fiscal 2012.

We evaluate our goodwill and indefinite-lived intangible assets for impairment annually on April 1, and on an interim basis if events or changes in circumstances between annual tests indicate that it is not more-likely-than-not that the fair value of a reporting unit is greater than its carrying value. A significant amount of judgment is involved in making this qualitative assessment, and events and circumstances we consider include, but are not limited to, overall financial performance including adverse changes to forecasts of operating results, a sustained decrease in the publicly-traded price of EDMC's common stock, macroeconomic conditions, industry and market considerations, cost factors, updated business plans and regulatory and legal developments.

Goodwill is impaired when the carrying amount of a reporting unit's goodwill exceeds its implied fair value, as determined under a two-step approach. In the first step, we determine the fair value of each reporting unit and compare that fair value to each unit's carrying value. We estimate the fair value of our reporting units using a combination of the discounted cash flow method (income approach) and the guideline public company method (market approach), which takes into account the invested capital and associated earnings multiples of publicly-traded peer companies. If the results of this first step indicate the carrying amount of a reporting unit is higher than its fair value, the second step must be performed, which requires that we determine the implied fair value of goodwill in the same manner as if we had acquired the reporting unit in an arm's length transaction as of the testing date. This second step is performed by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded amount of goodwill exceeds this implied fair value, an impairment charge is recorded for the difference as an operating expense in the period incurred.

During the second quarter of fiscal 2014, we observed declining application trends for future academic terms, particularly at The Art Institutes reporting unit, and performed a sensitivity analysis of its fair value using the most recently completed long range forecast and available earnings multiples of our peer group. This sensitivity analysis resulted in concluding that none of our reporting units experienced a triggering event that would have required a step one interim goodwill impairment analysis at December 31, 2013. Additionally, The Art Institutes had positive year-over-year growth in new student enrollment during the second fiscal quarter.

During the quarter ended March 31, 2014, new students decreased approximately 16% at The Art Institutes compared to the prior year quarter. Due primarily to lower than anticipated application production for future periods at The Art Institutes together with a significant deterioration in our market capitalization and credit rating downgrades during the quarter resulted in us no longer believing that it was more-likely-than-not that the fair values of each of our reporting units exceeded their carrying values at March 31, 2014. As a result, we revised our long-term projections and performed a step one interim goodwill impairment test for each of our reporting units at March 31, 2014.

The step one interim impairment tests performed as of March 31, 2014 used cash flow projections and market data as of that date. The Company does not believe that cash flow projections or the earnings multiples of its publicly-traded peer companies changed materially between March 31, 2014 and the Company's annual assessment date, which is April 1, 2014. In addition, management considered the change in the Company's stock price between these dates and concluded that based on all the available evidence, the impairment test performed as of March 31, 2014 was appropriate to use as the Company's annual April 1, 2014 test. The test indicated that the fair value of The Art Institutes fell below its carrying value as of March 31, 2014. Therefore, a step two test was required to be performed for The Art Institutes reporting unit, which yielded a goodwill impairment charge of $433.7 million in the quarter ended March 31, 2014.

During the quarter ended June 30, 2014, we made several decisions that materially affected the short-term projections at The Art Institutes and revised consolidated projections accordingly. In addition, we continued to experience significant deterioration in the market capitalization of our stock and declines in the fair values of our publicly-traded debt. These facts and circumstances, among others, resulted in us performing a step one interim goodwill impairment test for each of our reporting units at June 30, 2014, the results of which indicated that all applicable reporting units had fair values in excess of their carrying values by more than 25% at June 30, 2014.

The valuation of our reporting units under the discounted cash flow method (income approach) requires the use of internal business plans that account for expected future economic conditions, demand and pricing for our educational services, costs, inflation and discount rates, and other factors and are based on the use of judgments and estimates that involve inherent uncertainties. The measurement of the fair values of our reporting units is dependent on the accuracy of the assumptions used and how our estimates compare to future operating performance. The key assumptions used are, but are not limited to, the following:

- Future cash flow assumptions — Our projections are based on organic growth and are derived from assumptions regarding future growth and profitability trends. These projections also take into account the current economic climate and the extent to which the regulatory environment is expected to impact future growth opportunities. Our analysis incorporated an assumed period of cash flows with a terminal value determined using the Gordon Growth Model.
- Discount rate — The discount rate is based on each reporting unit’s estimated weighted average cost of capital ("WACC"). The three components of WACC are the cost of equity, cost of debt and capital structure, each of which requires judgment by management to estimate. We develop cost of equity estimates using the Capital Asset Pricing Model based on perceived risks and predictability of each reporting unit’s future cash flows. The cost of debt component represents a market participant’s estimated cost of borrowing, which we estimate using the average return on corporate bonds as of the valuation date, adjusted for taxes. At June 30, 2014, the WACC used to estimate the fair value of The Art Institutes reporting unit was 15.5% while the Argosy University and South University reporting units used a WACC of 18.0%, which represented an increase of 0.5% compared to March 31, 2014 due to an increase in the industry-specific beta component of the WACC. Holding all other factors constant, an increase in the discount rate of 100 basis points would not have resulted in the carrying values of The Art Institutes, Argosy University and South University exceeding their estimated fair values at June 30, 2014.

The valuation of our reporting units under the guideline public company method (market approach) utilizes EBITDA multiples of a peer group weighted based on similarities to each of our reporting units. Adjustments to these multiples are considered depending on overall trends noted in our industry that may be impacting our reporting units to a greater or lesser degree than our peers. Our market capitalization is also indirectly considered when determining the fair value of our reporting units.

Our indefinite-lived intangible assets consist of the trade names associated with The Art Institute schools, and licensing, accreditation and Title IV program participation assets for all of our education systems. The total carrying value of these assets at June 30, 2013 was as follows:

- $190.0 million related to The Art Institutes trade name; and
- $95.9 million related to our licensing, accreditation and Title IV program participation assets.

In connection with the two interim goodwill impairment tests we completed in fiscal 2014, we revalued The Art Institutes trade name at March 31, 2014 and June 30, 2014 using the relief from royalty method (income approach), which is the same method we used to value this asset as of the Transaction date. The relief from royalty method focuses on the level of royalty payments that the user of an intangible asset would have to pay a third party for the use of the asset if it were not owned by the user. Based on revenue projections as of March 31, 2014 and June 30, 2014 and assumptions of a royalty rate of 1.5% and 1.0%, respectively, and a discount rate of 15.5% and 16.0%, we determined there were impairments of $75.5 million and $41.3 million that were required for this asset at March 31, 2014 and June 30, 2014. The royalty rate decreased throughout the year due primarily due to reductions in long term revenue forecasts at The Art Institutes compared to the prior year long range projections. The increase in the discount rate was consistent with the increase noted above in the WACC used in the goodwill impairment analysis for The Art Institutes. At June 30, 2014, the remaining carrying value of The Art Institutes trade name is $73.2 million.

We also revalued the licensing, accreditation and Title IV program participation assets for all reporting units at March 31, 2014 and June 30, 2014 using the same approaches used to value these assets as of the date of the Transaction. These assets were valued by a combination of the cost and income approaches. The cost approach is used for the licensing and accreditation portions of this asset. Numerous factors are considered in order to estimate the Title IV portion of the asset, including the estimated amount of time it would take for an institution to qualify for Title IV funds as a new operation, the number of students currently receiving federal financial aid, the amount schools would have to lend students during the estimated time it would take to qualify for Title IV funds and the present value of projected cash flows. We recorded an $8.0 million impairment of these assets at The Art Institutes during the fiscal year ended June 30, 2014.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities result from (i) temporary differences in the recognition of income and expense for financial and income tax reporting requirements, and (ii) differences between the recorded value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income tax assets are reduced by a valuation allowance if it is more-likely-than-not that some portion of the deferred income tax asset will not be realized. We evaluate all available evidence, both positive and negative, on a quarterly basis to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit from an existing deferred tax asset ultimately depends upon the existence of sufficient taxable income within the carry back or carryforward period available under the tax law of the applicable jurisdiction. We reevaluate the realizability of these deferred tax assets quarterly and will adjust the valuation allowances based upon available evidence as required. Any future change in our assessment of the realizability of these deferred tax assets could affect our effective income tax rate, net income and net deferred tax assets in the period in which our assessment changes.

Excluding goodwill impairment charges incurred, we have been in a cumulative pre-tax loss position for the past three fiscal years ended June 30, 2014. Management considered the cumulative loss for book purposes as well as sources of taxable income and concluded that it was not more-likely-than-not that our deferred tax assets would be fully realized. Accordingly, we recorded a broader valuation allowance against both federal and state deferred tax assets in fiscal 2014 than in previous years. At June 30, 2014 and 2013, we had gross deferred tax assets of $201.3 and $185.6 million respectively, and valuation allowances against those gross deferred tax assets of $152.3 and $24.8 million, respectively.

We recognize the tax benefit from an uncertain tax position only if it is at least more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The amount of the tax benefit so recognized is measured as the largest amount of benefit that is more-likely-than-not to be realized upon effective settlement. We classify interest and penalties accrued in connection with unrecognized tax benefits as income tax expense in our consolidated statement of operations.

Stock-based compensation

Effective in September 2012, we adopted the Education Management Corporation 2012 Omnibus Long-Term Incentive Plan to issue stock options, stock appreciation rights, restricted stock, restricted stock units and other forms of long-term incentive compensation. We use the Black-Scholes-Merton option pricing model to determine the fair value of both our time-based and performance-based stock options at the grant date. The forfeiture rate at the date of a grant is generally determined using a historical rate based on actual experience; we review actual forfeitures on a periodic basis and update actual and estimated future compensation expense accordingly.

At June 30, 2014, we had unrecognized compensation relating to all stock-based awards of $29.8 million, which would be recognized in full upon the consummation of a change in control of the Company. See Item 8, "Financial Statements and Supplementary Data," Note 12, “Share-Based Compensation" for more information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In September 2014, we completed negotiations with our debt holders that significantly reduced our future debt service requirements. Refer to Item 7, "Management's Discussion and Analysis" under "Key Trends, Developments and Challenges" for more details.

At June 30, 2014, we had total debt obligations of $1,503.4 million, including $1,287.4 million of variable rate debt under the senior secured credit facility, at a weighted average interest rate of 8.2%.

We have two interest rate swaps that historically have qualified as cash flow hedges and effectively hedge our exposure to fluctuations in interest rate changes. These swaps are for notional amounts of $312.5 million each and effectively fix future interest payments at a rate of 6.26% through June 1, 2015. These derivative financial instruments are carried at fair value on our consolidated balance sheet, which is based on the framework discussed in Note 9, "Derivative Instruments," to the accompanying consolidated financial statements. We do not use derivative instruments for trading or speculative purposes.

After giving effect to interest rate swaps, only $662.4 million of our variable rate debt was subject to market rate risk at June 30, 2014. A hypothetical change of 1.25% in interest rates from June 30, 2014 levels would have increased or decreased interest expense by approximately $8.3 million in the fiscal year ended June 30, 2014 for the variable rate debt, after giving effect to the interest rate swaps. For the fiscal year ended June 30, 2014, we recorded a net change in the unrecognized loss on the interest rate swaps of $6.1 million, net of tax, in other comprehensive loss consisting of a $7.9 million increase from reclassification into earnings partially offset by a reduction of $1.8 million due to a periodic revaluation. On September 4, 2014, in connection with the Debt Restructuring described in Item 8, "Financial Statements and Supplementary Data," Note 2, "Summary of Significant Accounting Policies," under "Basis of Presentation," EM LLC entered into agreements to terminate its interest rate swaps at termination values payable to the counter-parties in the form of a combination of term loans and preferred stock. As a result, approximately $7 million will be reclassified from other comprehensive loss to the statement of operations, net of tax, during the first quarter of fiscal 2015.

We are exposed to market risks in the ordinary course of business that include fluctuations in the value of the Canadian dollar relative to the U.S. dollar. Due to the size of our Canadian operations relative to our total business, we do not believe we are subject to material risks from reasonably possible near-term changes in exchange rates and do not utilize forward or option contracts on foreign currencies.

The fair values of cash and cash equivalents, restricted cash, students receivable, notes receivable, the revolving credit facility, accounts payable and accrued expenses approximate carrying values.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Education Management Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Education Management Corporation and Subsidiaries as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows, and shareholders' equity for each of the three years in the period ended June 30, 2014. Our audits also included the financial statement schedule listed in the Index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position Education Management Corporation and Subsidiaries at June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Education Management Corporation and Subsidiaries' internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated October 16, 2014 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
October 16, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Education Management Corporation and Subsidiaries

We have audited Education Management Corporation and Subsidiaries internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Education Management Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in internal control over financial reporting related to the selection and application of generally accepted accounting principles (GAAP) related to revenue recognition. Members of the Company's management team with the appropriate level of accounting knowledge, experience and training commensurate with the financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure proper application of GAAP in certain circumstances. Specifically, the process for analyzing the collectibility criterion for revenue recognition was not designed to assess collectibility, on a student-by-student basis, throughout the period revenue was recognized by the Company's institutions. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Education Management Corporation and Subsidiaries as of June 30, 2014 and 2013, and related consolidated statements of operations, comprehensive loss, cash flows and shareholders' equity for each of the three years in the period ended June 30, 2014 of Education Management Corporation and Subsidiaries. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2014 financial statements, and this report does not affect our report dated October 16, 2014 , which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Education Management Corporation and Subsidiaries has not maintained effective internal control over financial reporting as of June 30, 2014, based on the COSO criteria.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
October 16, 2014

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 270,567	$ 130,695
Restricted cash	271,681	271,340
Total cash, cash equivalents and restricted cash	542,248	402,035
Student receivables, net of allowances of $143,335 and $174,760 (Note 6)	210,182	206,406
Notes, advances and other receivables	57,908	32,547
Deferred income taxes (Note 11)	24,502	76,927
Prepaid income taxes	5,283	20,854
Other current assets	35,843	32,850
Total current assets	875,966	771,619
Property and equipment, net (Note 4)	429,457	525,625
Goodwill (Note 5)	343,406	777,153
Intangible assets, net (Note 5)	169,823	300,435
Other long-term assets	58,384	48,524
Total assets	$ 1,877,036	$ 2,423,356
Liabilities and shareholders' (deficit) equity		
Current liabilities:		
Revolving credit facility (Note 8)	$ 219,890	$ 75,000
Current portion of long-term debt (Note 8)	11,875	12,076
Accounts payable	38,553	32,559
Accrued liabilities (Note 7)	167,282	157,417
Unearned tuition	115,869	113,371
Advance payments	81,856	95,675
Total current liabilities	635,325	486,098
Long-term debt, less current portion (Note 8)	1,271,586	1,273,164
Deferred income taxes (Note 11)	58,577	72,622
Deferred rent	185,795	201,202
Other long-term liabilities	10,626	34,414
Shareholders' (deficit) equity:		
Common stock, at par	1,452	1,435
Additional paid-in capital	1,815,860	1,794,846
Treasury stock, at cost	(331,877)	(328,605)
Accumulated deficit	(1,762,096)	(1,098,179)
Accumulated other comprehensive loss	(8,212)	(13,641)
Total shareholders' (deficit) equity	(284,873)	355,856
Total liabilities and shareholders' (deficit) equity	$ 1,877,036	$ 2,423,356

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

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Net revenues	$ 2,272,736	$ 2,498,599	$ 2,760,967
Costs and expenses:			
Educational services	1,373,699	1,447,097	1,502,356
General and administrative	667,567	689,143	762,863
Depreciation and amortization	152,501	164,712	158,663
Long-lived asset impairments (Notes 4 and 5)	568,216	300,104	1,662,288
Total costs and expenses	2,761,983	2,601,056	4,086,170
Loss before interest, loss on debt refinancing and income taxes	(489,247)	(102,457)	(1,325,203)
Interest expense, net	128,033	124,663	110,330
Loss on debt refinancing (Note 8)	—	5,232	9,474
Loss before income taxes	(617,280)	(232,352)	(1,445,007)
Income tax expense (benefit) (Note 11)	46,637	12,038	(11,437)
Net loss	$ (663,917)	$ (244,390)	$ (1,433,570)
Loss per share: (Note 3)			
Basic	$ (5.29)	$ (1.96)	$ (11.32)
Diluted	$ (5.29)	$ (1.96)	$ (11.32)
Weighted average number of shares outstanding: (Note 3)			
Basic	125,504	124,560	126,659
Diluted	125,504	124,560	126,659

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

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	For the Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Net loss	$ (663,917)	$ (244,390)	$ (1,433,570)
Other comprehensive income (loss):			
Net change in interest rate swaps:			
Periodic revaluation of interest rate swaps, net of tax benefit of $1,252, $1,545 and $8,049	(1,799)	(2,619)	(13,646)
Reclassification adjustment for interest recognized in consolidated statements of operations, net of tax expense of $4,658, $4,448 and $4,988	7,898	7,542	8,457
Net change in unrecognized loss on interest rate swaps, net of tax	6,099	4,923	(5,189)
Foreign currency translation loss	(670)	(527)	(658)
Other comprehensive income (loss)	5,429	4,396	(5,847)
Comprehensive loss	$ (658,488)	$ (239,994)	$ (1,439,417)

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

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Fiscal Year Ended June 30,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss	$ (663,917)	$ (244,390)	$ (1,433,570)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization of property and equipment	146,158	157,871	151,023
Amortization of intangible assets	6,343	6,841	7,640
Bad debt expense	141,946	171,850	163,926
Long-lived asset impairments	568,216	300,104	1,662,288
Amortization of debt issuance costs	14,160	8,460	1,071
Loss on debt refinancing	—	5,232	9,474
Share-based compensation	16,419	17,112	13,290
Non-cash adjustments related to deferred rent	(18,654)	(17,477)	(12,956)
Amortization of deferred gains on sale-leaseback transactions	(2,252)	(1,575)	—
Deferred income taxes	36,274	(18,840)	(130,194)
Changes in assets and liabilities:			
Restricted cash	(341)	(3,460)	(220,367)
Receivables	(174,163)	(195,336)	(220,319)
Reimbursements for tenant improvements	2,457	10,054	15,307
Inventory	(469)	2,505	1,203
Other assets	7,338	15,151	(3,856)
Accounts payable	4,404	(19,596)	(1,637)
Accrued liabilities, including income taxes	(1,998)	6,092	20,454
Unearned tuition	2,497	(2,906)	(23,873)
Advance payments	(13,772)	(6,385)	(9,754)
Total adjustments	734,563	435,697	1,422,720
Net cash flows provided by (used in) operating activities	70,646	191,307	(10,850)
Cash flows from investing activities:			
Expenditures for long-lived assets	(73,760)	(83,241)	(93,546)
Proceeds from sale of fixed assets	9,565	65,065	—
Reimbursements for tenant improvements	(2,457)	(10,054)	(15,307)
Other	—	2,418	—
Net cash flows used in investing activities	(66,652)	(25,812)	(108,853)
Cash flows from financing activities:			
Borrowings under revolving credit facility	219,890	75,000	111,300
Payments under revolving credit facility	(75,000)	(111,300)	(79,000)
Repayment of senior notes	—	(171,953)	—
Principal payments on long-term debt	(12,051)	(12,155)	(11,025)
Debt issuance costs and other	—	(5,232)	(11,928)
Issuance of common stock as a result of stock-option exercises	2,968	3	2,355
Gross excess tax benefit from share-based compensation	3,417	—	263
Minimum tax withholding requirements for restricted stock units	(3,272)	—	—
Common stock repurchased for treasury	—	—	(104,073)
Net cash flows provided by (used in) financing activities	135,952	(225,637)	(92,108)
Effect of exchange rate changes on cash and cash equivalents	(74)	(171)	(405)
Net change in cash and cash equivalents	139,872	(60,313)	(212,216)
Cash and cash equivalents, beginning of period	130,695	191,008	403,224
Cash and cash equivalents, end of period	$ 270,567	$ 130,695	$ 191,008
Cash paid (received) during the period for:			
Interest (including swap settlement)	$ 116,639	$ 111,396	$ 116,014
Income taxes, net of refunds	$ (1,464)	$ 46,699	$ 114,629

	As of June 30,		
Noncash investing activities:	2014	2013	2012
Capital expenditures in current liabilities	$ 13,780	$ 9,022	$ 13,201

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

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EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock at Par Value (2)	Additional Paid-in Capital	Treasury Stock, at cost (2)	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Total
			(In thousands)			
June 30, 2011	$ 1,431	$ 1,761,848	$ (226,926)	$ 579,781	$ (12,190)	$ 2,103,944
Net loss	—	—	—	(1,433,570)	—	(1,433,570)
Share-based compensation	—	13,290	—	—	—	13,290
Exercise of stock-options including net excess tax benefit	3	2,594	—	—	—	2,597
Common stock repurchased for treasury	—	—	(101,679)	—	—	(101,679)
Other comprehensive loss	—	—	—	—	(5,847)	(5,847)
June 30, 2012	1,434	1,777,732	(328,605)	(853,789)	(18,037)	578,735
Net loss	—	—	—	(244,390)	—	(244,390)
Share-based compensation	1	17,111	—	—	—	17,112
Exercise of stock-options	—	3	—	—	—	3
Other comprehensive loss	—	—	—	—	4,396	4,396
June 30, 2013	1,435	1,794,846	(328,605)	(1,098,179)	(13,641) (1)	355,856
Net loss	—	—	—	(663,917)	—	(663,917)
Share-based compensation	—	16,419	—	—	—	16,419
Exercise of stock-options	17	2,951	—	—	—	2,968
Net excess tax benefit from share based compensation	—	1,644	—	—	—	1,644
Minimum tax withholding requirements for restricted stock units	—	—	(3,272)	—	—	(3,272)
Other comprehensive income	—	—	—	—	5,429	5,429
June 30, 2014	$ 1,452	$ 1,815,860	$ (331,877)	$ (1,762,096)	$ (8,212) (1)	$ (284,873)

(1) The balance in accumulated other comprehensive loss at June 30, 2014 and 2013 was comprised of $6.6 million and $12.7 million of cumulative unrealized losses on interest rate swaps, net of tax, respectively and $1.6 million and $0.9 million of cumulative foreign currency translation losses, respectively.

(2) There were 600,000,000 authorized shares of $0.01 par value common stock at June 30, 2014 and 2013. Common stock outstanding and treasury stock balances and activity were as follows for the periods indicated:

	Treasury Shares	Net Shares Outstanding
June 30, 2011	13,333,972	129,811,749
Repurchased for treasury	5,568,168	(5,568,168)
Issued for stock-based compensation plans	—	234,226
June 30, 2012	18,902,140	124,477,807
Issued for stock-based compensation plans	—	123,717
June 30, 2013	18,902,140	124,601,524
Issued for stock-based compensation plans	—	1,716,419
Minimum tax withholding requirements for restricted stock units	274,644	(274,644)
June 30, 2014	19,176,784	126,043,299

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

1. DESCRIPTION OF BUSINESS AND CHANGE IN OWNERSHIP

Description of Business

Education Management Corporation ("EDMC" and collectively with its subsidiaries, the "Company") is among the largest providers of post-secondary education in North America, with approximately 125,560 enrolled students as of October 2013. The Company offers campus-based education through four different education systems and through online platforms at three of the four education systems, or through a combination of both. These four education systems comprise the Company's reportable segments, which are The Art Institutes, Argosy University, Brown Mackie Colleges and South University. Refer to Note 17, "Segment Reporting" for additional information.

The Company is committed to offering quality academic programs and strives to improve the learning experience for its students to help them achieve their educational goals across the spectrum of in-demand careers. The Company's innovative academic programs are designed with an emphasis on employment-focused content and technology that advances education, and are taught primarily by faculty members who, in addition to having appropriate academic credentials, offer practical and relevant professional experience in their respective fields.

Ownership

On June 1, 2006, the Company was acquired by a consortium of private equity investment funds led by Providence Equity Partners, Goldman Sachs Capital Partners and Leeds Equity Partners (collectively, the "Sponsors"). The acquisition was accomplished through the merger of EM Acquisition Corporation into EDMC, with EDMC surviving the merger (the "Transaction") and was financed by equity invested by the Sponsors and other investors, cash on hand and secured and unsecured borrowings. Refer to Note 8, "Short-Term and Long-Term Debt" for more information.

In October 2009, EDMC completed an initial public offering of 23.0 million shares of its common stock, $0.01 par value per share ("Common Stock"), at a per share price of $18.00 (the "Initial Public Offering"). The Sponsors did not sell any of their shares in connection with the Initial Public Offering.

In June 2010, the Company's Board of Directors approved a stock repurchase program under which it could purchase its common stock in the open market, in privately negotiated transactions, through accelerated repurchase programs or in structured share repurchase programs. From the inception of the stock repurchase program through its expiration on December 31, 2012, the Company repurchased 18.9 million shares of its common stock for a total cost of $328.6 million.

Government Regulations

Each of the Company's schools located in the United States is recognized by accreditation agencies and by the U.S. Department of Education, enabling students to access federal student loans, grants and other forms of public and private financial aid. Participating institutions are required to administer Title IV program funds in accordance with the Higher Education Act of 1965, as amended ("HEA"), and U.S. Department of Education regulations and must use diligence in approving and disbursing funds and servicing loans. In the event a participating institution does not comply with federal requirements or if student loan default rates are at a level that exceeds certain thresholds set by statute and regulation, that institution could lose its eligibility to participate in Title IV programs or could be required to repay funds determined to have been improperly disbursed. Most of the students who attend the Company's institutions participate in federal and state financial aid and assistance programs. The percentage of net revenues derived from Title IV programs ranged from approximately 55% to 81%, with a weighted average of approximately 76% in fiscal 2014 compared to a range of 56% to 82%, with a weighted average of approximately 76% in fiscal 2013.

Revisions and Reclassifications

The goodwill impairment charges from fiscal 2013 and 2012 have been adjusted as further described in Note 5, "Goodwill and Intangible Assets" under "Correction of Immaterial Errors." In addition, certain amounts in prior periods have been reclassified to conform to the fiscal 2014 presentation, with no effect on previously reported net income or shareholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (Including Debt Restructuring)

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30.

The Company has experienced deteriorating results from operations over the last several fiscal years, which coupled with the use of cash, created uncertainty as to the Company's ability to continue as a going concern. The Company has entered into the following agreements and taken the following actions to mitigate these risks:

- an amendment agreement dated September 5, 2014 (the "Amendment Agreement"), with the holders of in excess of 98% of the term loan facilities and 100% of the revolving credit facility (collectively, the "Consenting Lenders") pursuant to which, among other things, (i) the maturity on the revolving credit facility was extended from June 1, 2015 to July 2, 2015, (ii) the Consenting Lenders under the revolving credit facility agreed to accept payment of interest in kind rather than cash through June 30, 2015, (iii) the Consenting Lenders holding term loans agreed that no amortization payments will be payable through June 30, 2015 and to accept the payment of interest in kind rather than cash through June 30, 2015, (iv) EDMC became a guarantor and granted a lien on substantially all of its assets to secure the obligations under the agreement, (v) compliance with the financial covenants was waived through June 30, 2015, and (vi) the security agreement governing the credit facility was amended such that the collateral proceeds “waterfall” set forth therein now provides that obligations owing to any lenders that are not Consenting Lenders shall be paid only after satisfaction in full of obligations owing to Consenting Lenders and swap counterparties who have executed the RSA (as defined below);

- a supplemental indenture dated September 5, 2014 (the "Supplemental Indenture"), pursuant to which the Indenture governing the cash pay/PIK notes due 2018 (the "Cash Pay/PIK Notes") was amended (i) to require the Company to offer all holders of the Cash Pay/PIK Notes the opportunity to receive the same consideration in the Debt Restructuring (as defined below) as holders of the Interim Notes (as defined below), (ii) to provide for (a) the release of EDMC’s guarantee and (b) the termination of certain covenants and certain events of default, in each case upon the completion of the exchange of Cash Pay/PIK Notes and Interim Notes contemplated by the Debt Restructuring and (iii) to provide that if Education Management LLC is no longer subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, it will not be required to file reports with the Securities and Exchange Commission but instead will be required to distribute annual, quarterly and current reports to the trustee under the Indenture and hold a conference call within 20 business days of furnishing required annual and quarterly reports;

- an exchange agreement dated September 5, 2014 (the "Exchange Agreement"), pursuant to which the holders of 86% of the outstanding Cash Pay/PIK Notes exchanged their Cash Pay/PIK Notes for a like principal amount of new Senior PIK Toggle Notes due 2018 (the "Interim Notes" and together with the Cash Pay/PIK Notes, the "Notes"), whose terms are substantially similar to those of the Cash Pay/PIK Notes, except that their interest is payable entirely in kind for the two interest periods ending September 30, 2014 and March 30, 2015;

- a new indenture dated September 5, 2014 (the "New Indenture"), pursuant to which the Interim Notes were issued; and

- a Restructuring Support Agreement dated September 4, 2014 (the "RSA"), pursuant to which the Consenting Lenders, holders of in excess of 65% of the outstanding Notes (the "Consenting Noteholders"), certain of the Company's swap counter-parties and holders of in excess of 72% of the Company's outstanding common stock (the "Consenting Shareholders") agreed to support a comprehensive debt restructuring ("Debt Restructuring") as described below.

Pursuant to the Debt Restructuring:

- $150 million of revolving loans under the existing revolving credit facility will be repaid in cash at par, with such amount available for re-borrowing under a new revolving credit facility;

- the remaining portion of the Company's $1.5 billion of outstanding indebtedness, including the Interim Notes, will be exchanged for two first lien senior secured term loans due July 2, 2020 in the aggregate principal amount of $400 million, mandatorily convertible preferred stock, optionally convertible preferred stock and warrants for common stock; and

- the Company’s current shareholders will retain their outstanding common stock, which in aggregate will equal 4% of the Company’s outstanding common stock after giving effect to the conversion of all of the preferred stock described above and subject to further dilution by a management incentive plan (the "MIP") and warrants (including those described in the next sentence) to be awarded pursuant to the Debt Restructuring. In addition, current shareholders will receive warrants for 5% of the Company’s common stock (subject to dilution by the MIP).

In addition to these actions, management has developed a plan to reduce cash outflows in fiscal 2015 in order to maintain sufficient liquidity to allow the Company to meet its obligations as they become due. While no assurance can be given that management's plan will be fully implemented in fiscal 2015, based on the agreements executed and management's projected cash flows for fiscal 2015, management believes that cash flow from operations and available cash on hand, supplemented from time to time with borrowings under the revolving credit facility, will provide adequate funds for ongoing operations, required debt service and other obligations as they become due during the next twelve months.

The accompanying consolidated financial statements have been prepared on the assumption that the Company will continue to operate as a going concern and do not include any adjustments that might result from the Company not being able to continue as a going concern. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates on assumptions that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. These investments are stated at cost, which approximates fair value.

The Company's institutions hold funds from the United States government under various student aid grant and loan programs in separate bank accounts, and serve as trustee for the U.S. Department of Education or respective lender or student borrower, as applicable. The Company does not record funds held in these bank accounts as cash or restricted cash until the authorization and disbursement process has occurred. Once the authorization and disbursement process to the student has been completed, the funds are transferred to unrestricted accounts and become available for use in current operations, except as noted in footnote two to the table below. This transfer generally occurs for the period of the academic term for which such funds were authorized, with no term being more than 16 weeks in length.

Restricted cash consisted of the following at June 30 (in thousands):

	2014	2013
Cash secured letters of credit (1)	$ 210,000	$ 210,000
Title IV funds received in excess of charges applied (2)	50,406	56,595
Surety bonds (3)	7,275	—
Escrowed in connection with student lending program (4)	2,500	2,500
Endowments (5)	1,500	1,500
Escrowed in connection with operating lease	—	745
Restricted cash	$ 271,681	$ 271,340

(1) Includes liens on certain of the Company's cash deposits, which equal 105% of the aggregate $200.0 million of outstanding letters of credit under the Company's cash secured letter of credit facilities further explained in Note 8, "Short-Term and Long-Term Debt." Such cash is not available for any purpose other than to reimburse drawings under the letters of credit or to pay related fees and obligations.

(2) U.S. Department of Education regulations require Title IV program funds received by the Company's educational institutions in excess of the charges applied to the relevant students at that time to be, with these students' permission, maintained and classified as restricted. In addition, some states have similar requirements. Such funds are recorded as restricted cash due to legal restrictions on the use of the funds and as advance payments on the Company's consolidated balance sheets. The balances also include $35.1 million and $39.3 million at June 30, 2014 and 2013, respectively, related to Title IV amounts that the Company has already received for courses that fully-online students attending Argosy University and South University have not begun. Since these students take classes under a non-term academic structure, the cash is classified as restricted because the Company does not intend to use the funds for operating purposes until a student successfully demonstrates academic progress with respect to each course the student attends in the student's program of study.

(3) Relates to amounts required to be maintained on deposit in connection with surety bonds primarily provided to state regulatory agencies as described in Note 14, "Commitments and Contingencies."

(4) Relates to an account required to be maintained in connection with the Company's student lending program further described in Note 6, "Student Receivables."

(5) Relates to endowments required by state law at certain of the Company's schools.

Revenue Recognition

The Company's net revenues consist primarily of tuition and fees, student housing fees, bookstore sales, restaurant sales in connection with culinary programs, workshop fees and sales of related study materials. Net revenues are reduced for student refunds and scholarships. The Company derived approximately 93% of its net revenues from tuition and fees in each of the fiscal years ended June 30, 2014, 2013 and 2012.

The Company bills tuition and housing revenues at the beginning of an academic term and recognizes the revenue on a pro rata basis over the term of instruction or occupancy. Some of the Company's academic terms have starting and ending dates that differ from the Company's fiscal quarters. Therefore, at the end of each fiscal quarter, the Company has tuition from academic terms with respect to which the associated revenue has not yet been earned. Such amounts are recorded as unearned tuition, which is a current liability in the accompanying consolidated balance sheets. Advance payments are generally refundable and relate to payments received for future academic periods and are also recorded as a current liability in the accompanying consolidated balance sheets.

If a student withdraws from one of the Company's schools, the extent of his or her obligation for tuition and fees depends on when that student withdraws during an academic term. The Company reduces the student's obligation depending upon its refund policies, which vary by state and institution and take into account the refund requirements of the U.S. Department of Education, most state education authorities that regulate the Company's schools, the accrediting commissions that accredit the Company's schools and the Company's institutional policies (collectively, "Refund Policies"). In the vast majority of situations, if a student withdrew from school after attending classes for at least 60.0% of a term of instruction, he or she would not be eligible for any reduction in tuition under the Company's Refund Policies. Accordingly, the student would have to pay the Company the balance of tuition and fees that has not been received already either in the form of financial aid or payments from the student. However, if a student withdraws from school prior to attending classes for at least 60.0% of a term of instruction, the Company may reduce the amount of a student's obligation for tuition and fees based on a tiered approach under which, in general, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student's obligation is to the school for the tuition and fees related to that academic term.

Based on the application of its refund policies, the Company may be entitled to incremental revenue on the day the student withdraws from one of its schools. Prior to fiscal 2014, the Company recorded this incremental revenue, related student receivable and an estimate of the amount it did not expect to collect as bad debt expense during the fiscal quarter a student withdrew. Effective in fiscal 2014, the Company reassesses collectability when a student withdraws from the institution (i.e., is no longer enrolled) and records incremental revenue after a student's withdrawal from school based on cash received. This correction in policy had the effect of reducing net revenues and student receivables by $36.7 million and bad debt expense and the corresponding allowance for doubtful accounts by $33.2 million, which resulted in an increase to the loss before taxes of $3.5 million in the fiscal year ended June 30, 2014. Prior year amounts were not corrected because the effects were not material.

Student Receivables

The Company records student receivables at cost less an estimated allowance for doubtful accounts, which is determined on a quarterly basis based on the likelihood of collection considering students' enrollment status and historical payment experience. Historical collection experience is analyzed by disaggregating the student receivable balances based on predominant risk characteristics, such as whether the student is currently in-school, recently withdrew from school, or has not made a payment for a longer period of time. This level of disaggregation of student receivables results in individual pools of receivables which management believes appropriately differentiates credit risk in the portfolio and provides a reasonable basis to compute the estimate of loss. When certain criteria are met, which is generally when receivables age past the due date by more than four months, and internal collection measures have been taken without success, the accounts of former students are placed with a collection agency. Student accounts that have been placed with a collection agency are almost fully reserved and are written off after collection attempts have been unsuccessful.

During fiscal 2013, the Company reduced the number of days since last payment after which accounts placed with a collection agency are written off. This change did not impact the statement of operations or net student receivables as the applicable accounts were already fully reserved. Refer to Note 6, "Student Receivables," for more information.

Inventories

Inventories consist mainly of textbooks and supplies held for sale to students enrolled in the Company's educational programs and are presented in other current assets in the accompanying consolidated balance sheets. Cost is determined using the average cost method and inventories are valued at the lower of cost or market.

Leases

The Company leases certain classroom, dormitory and office space, as well as equipment and automobiles under operating leases. Before entering into a new lease, an analysis is performed to determine whether a lease should be classified as capital or operating.

Certain of the Company's lease agreements include tenant improvement allowances. Once the lease agreement is signed, these tenant improvement allowances are recorded as other current assets with the offset to deferred rent liabilities on the consolidated balance sheets. Concurrent with the expenditures for lease improvements, the Company records increases to leasehold improvement assets in property and equipment. Other current assets are reduced once the landlord reimburses the Company. The deferred rent liabilities related to tenant improvements are amortized over the term of the lease as a reduction to rent expense upon possession of the lease space.

Many of the Company's lease agreements contain escalation clauses under which, if fixed and determinable, rent expense is recognized on a straight-line basis over the lives of the leases, which generally range from five to 15 years with one or more renewal options. For leases with renewal options, the Company records rent expense over the original lease term, exclusive of the renewal period. When a renewal occurs, the Company records rent expense over the new lease term.

Property and Equipment and Finite-Lived Intangible Assets

Property and equipment is recorded at its cost less accumulated depreciation. Depreciation policies for such assets are as follows:

- Buildings are depreciated over an estimated useful life of 30 years using the straight-line method;
- Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, exclusive of any renewal periods, or their estimated useful lives; and
- The remainder of the Company's property and equipment is depreciated over estimated useful lives ranging from three to 10 years using the straight-line method, depending on the asset.

Finite-lived intangible assets primarily relate to curriculum developed for fully-online courses which are amortized over a two-year useful life.

The Company records impairment losses on property and equipment and finite-lived intangible assets when events and circumstances indicate that the undiscounted cash flows estimated to be generated by those assets or asset groups are less than their carrying amounts. Events and circumstances that could trigger an impairment review include changes in the regulatory environment, deteriorating economic conditions or poor operating performance at individual campus locations. Any resulting impairment loss would be measured as the difference between the fair value of the assets or asset groups and their carrying value with the loss recorded as an operating expense in the consolidated statement of operations in the period incurred. Refer to Note 4, "Property and Equipment," for more information.

Goodwill and Indefinite-Lived Intangible Assets

In connection with the Transaction, property, equipment, intangible assets other than goodwill and other assets and liabilities were recorded at fair value. The excess of the amount paid to acquire the Company at the time of the Transaction over the fair values of these net assets represented the intrinsic value of the Company beyond its tangible and identifiable intangible net assets and was assigned to goodwill.

The Company formally evaluates the carrying amount of goodwill for each of its reporting units on April 1 of each fiscal year. In addition, the Company performs an evaluation on an interim basis if it determines that recent events or prevailing conditions indicate a potential impairment of goodwill. A significant amount of judgment is involved in determining whether an indicator of impairment has occurred between annual impairment tests. These indicators include, but are not limited to, overall financial performance such as adverse changes in recent forecasts of operating results, industry and market considerations, a sustained decrease in the price of a share of EDMC Common Stock, updated business plans and regulatory and legal developments.

Goodwill is impaired when the carrying amount of a reporting unit's goodwill exceeds its implied fair value, as determined under a two-step approach. In the first step, the Company determines the fair value of each reporting unit and compares that fair value to each reporting unit's carrying value. The Company estimates the fair value of its reporting units using a combination of the discounted cash flow method (income approach) and the guideline public company method (market approach), which takes into account the invested capital and associated earnings multiples of publicly-traded peer companies. If the results of the first step indicate the carrying amount of a reporting unit is higher than its fair value, a second step must be performed, which requires the Company to determine the implied fair value of goodwill in the same manner as if it had acquired the reporting unit in an arm's length transaction as of the testing date. This second step is performed by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded amount of goodwill exceeds this implied fair value, an impairment charge is recorded for the difference as an operating expense in the period incurred.

Indefinite-lived intangible assets, consisting of the licensing, accreditation and Title IV program participation assets for all reporting units and The Art Institute trade name, are also evaluated annually on April 1 for impairment and on an interim basis if events or changes in circumstances between annual tests indicate that the asset might be impaired. Trade names are valued by the relief from royalty method (income approach), which focuses on the level of royalty payments that the user of an intangible asset would have to pay a third party for the use of the asset if it were not owned by the user. The Company uses a combination of the cost and income approaches to establish the asset value of licenses, accreditation and Title IV program participation assets. On the impairment testing date, if the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized for an amount equal to the difference. The intangible asset is then carried at its new fair value.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities result from (i) temporary differences in the recognition of income and expense for financial and income tax reporting requirements, and (ii) differences between the recorded value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income tax assets are reduced by a valuation allowance if it is more-likely-than-not that some portion of the deferred income tax asset will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is at least more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount of the tax benefit that is recognized is measured as the largest amount of benefit that is more-likely-than-not to be realized upon effective settlement. The Company classifies interest and penalties accrued in connection with unrecognized tax benefits as income tax expense in its consolidated statement of operations.

Refer to Note 11, "Income Taxes," for more information.

Derivative Financial Instruments

Education Management LLC ("EM LLC"), an indirect wholly-owned subsidiary of the Company, utilizes interest rate swap agreements, which are contractual agreements to exchange payments based on underlying interest rates, to manage a portion of its floating rate term debt. The swaps are accounted for as an asset or a liability in the consolidated balance sheets at fair value. The Company uses “Level Two” inputs to value its interest rate swaps, which are defined in Note 10, "Fair Value of Financial Instruments." The application of these Level Two inputs is based on LIBOR forward curves and an assessment of non-performance risk based upon published market data. If interest rate swap agreements are deemed highly effective for accounting purposes and are designated as cash flow hedges, the changes in their fair values are recorded in other comprehensive income (loss), net of tax. If they are not deemed highly effective, the changes in their fair values are recorded in interest expense in the consolidated statements of operations. The Company does not use derivative financial instruments for trading or speculative purposes. Refer to Note 9, "Derivative Instruments," for more information.

Foreign Currency Translation

The financial position and results of operations of the Company’s foreign subsidiary are initially measured at its functional currency, which is the Canadian dollar. Accordingly, the assets and liabilities of the foreign subsidiary are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Revenues and expenses are translated into U.S. dollars using average monthly exchange rates. Translation adjustments resulting from this process are recorded as a separate component of equity designated as accumulated other comprehensive income (loss) in the consolidated balance sheets. Translation gains and losses were not material in fiscal 2014, 2013 or 2012.

Share-Based Compensation

The Black-Scholes-Merton option pricing model is used to determine the fair value of all of the Company’s stock-options at the grant date. The Company recognizes compensation costs on time-based options and restricted stock units on a straight-line basis over the requisite service period, which is generally the vesting term, net of expected forfeitures. See Note 12, “Share-Based Compensation,” for more information.

Contingencies

The Company accrues for contingent obligations when it is probable that a liability has been incurred and the amount is reasonably estimable. As facts concerning contingencies evolve and become known, management reassesses the likelihood of probable loss and makes appropriate adjustments to its financial statements.

Costs and Expenses

Educational services expense consists primarily of costs related to the development, delivery and administration of the Company's education programs. Major cost components are faculty compensation, administrative salaries, facility occupancy costs, bad debt expense, costs of educational materials and information systems costs. These costs are expensed as services are provided to the Company or as incurred.

General and administrative expense consists of marketing and student admissions expenses and certain central staff costs such as executive management, finance and accounting, legal and consulting services, corporate development and other departments that do not provide direct services to the Company's students. These costs are expensed as services are provided to the Company or as incurred.

Marketing costs are expensed in the fiscal year incurred and are classified as general and administrative expense in the accompanying consolidated statements of operations. The Company's marketing expense was $255.9 million, $255.0 million and $296.9 million during the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. The Company is currently evaluating the impact that the standard will have on its financial condition, results of operations, and disclosures.

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB clarified the presentation of an unrecognized tax benefit when a net operating loss or tax credit carryforward exists. The clarification requires that an unrecognized tax benefit be presented as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward when settlement of the unrecognized tax benefit using those carryforwards is available pursuant to existing tax law. The Company's adoption of the FASB clarification had no impact on its consolidated financial statements.

3. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed using the weighted average number of shares outstanding during the period. The Company uses the treasury stock method to compute diluted EPS, which assumes that restricted stock units were converted into common stock and that outstanding stock options that are in-the-money were exercised and the resulting proceeds (which includes unrecognized compensation expense and excess tax benefits) were used to acquire shares of common stock at its average market price during the reporting period.

Basic and diluted EPS were calculated as follows (in thousands, except per share amounts):

	For the Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Net loss	$ (663,917)	$ (244,390)	$ (1,433,570)
Weighted average number of shares outstanding:			
Basic	125,504	124,560	126,659
Effect of stock-based awards	—	—	—
Diluted	125,504	124,560	126,659
Loss per share:			
Basic	$ (5.29)	$ (1.96)	$ (11.32)
Diluted	$ (5.29)	$ (1.96)	$ (11.32)

All outstanding time-based stock options and restricted stock units were excluded from the computation of diluted EPS for the fiscal years ended June 30, 2014, 2013 and 2012 because the Company recorded a net loss, which made all awards anti-dilutive.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30 (in thousands):

Asset Class	2014	2013
Leasehold improvements	$ 577,537	$ 570,286
Technology	329,361	324,403
Furniture and equipment	162,872	163,595
Software	120,242	98,537
Library books	44,604	44,248
Construction in progress	16,683	19,601
Buildings and improvements	5,798	25,566
Land	3,605	5,495
Total	1,260,702	1,251,731
Less accumulated depreciation	(831,245)	(726,106)
Property and equipment, net	$ 429,457	$ 525,625

Depreciation and amortization expense related to property and equipment was $146.2 million, $157.9 million and $151.0 million, respectively, for the fiscal years ended June 30, 2014, 2013 and 2012. Included in these amounts is amortization expense on software of $18.3 million, $20.2 million and $14.7 million, respectively. Amortization expense on software assets for the year ended June 30, 2013 included $4.6 million in accelerated amortization resulting from the write off of a software asset that no longer had a useful life.

Sale-Leaseback Transactions

The Company completed six sale-leaseback transactions with unrelated third parties for net proceeds of $9.6 million and $65.1 million in fiscal 2014 and 2013, respectively, which are classified as an investing activity in the consolidated statement of cash flows. The transactions resulted in net losses of $3.5 million and $3.9 million recorded in educational services expense upon closing the transactions. In connection with the prior year sale-leaseback transactions, gains of $17.8 million were deferred, of which $14.3 million remains at June 30, 2014. The deferred gains are classified within deferred rent on the consolidated balance sheet and are being recognized over the initial terms of the new leases as a reduction to educational services expense. At the time of closing for all transactions, the Company entered into agreements to lease all of these properties back from the purchasers over initial lease terms ranging from three to 15 years. The Company classified these leases as operating and considers them normal leasebacks with no other continuing involvement. Refer to Note 18, "Subsequent Events," for a description of an additional sale-leaseback transaction that occurred in August 2014.

Lease Abandonment and Restructuring

During fiscal 2014, management determined it would not begin admitting students for one of its start-up Art Institute locations as was previously anticipated. As a result, the Company recorded a $6.3 million lease abandonment charge in educational services expense during the fiscal year ended June 30, 2014 which was comprised of existing construction-in-progress assets (which resulted in a reduction to property and equipment) and accelerated rent expense based on the remaining minimum obligations under the existing lease, net of expected sublease income. In addition, in connection with restructuring plans across the organization intended to improve operational efficiencies and align costs with student enrollment levels as further described in Note 7, "Accrued Liabilities," the Company recorded lease restructuring charges during fiscal 2014, 2013 and 2012 of $5.8 million, $2.0 million and $2.5 million, respectively, which primarily comprised of existing leasehold improvement assets (which resulted in a reduction to property and equipment) and accelerated rent expense.

Impairments

During fiscal 2014 and 2013, the Company recorded charges of $6.1 million and $1.2 million in long-lived asset impairments in the consolidated statements of operations as estimated future cash flows at three of the Company's Brown Mackie College locations and one of the Company's Argosy University locations, respectively, were insufficient to support the carrying values of their property and equipment, which primarily consisted of leasehold improvement assets. These charges were calculated using an income valuation approach.

5. GOODWILL AND INTANGIBLE ASSETS

In connection with the Transaction on June 1, 2006, the Company recorded approximately $2.6 billion of goodwill, which was allocated to its four reporting units: The Art Institutes, Argosy University, Brown Mackie Colleges and South University. The goodwill balance attributed to the Brown Mackie Colleges reporting unit was fully written off in connection with an impairment charge incurred during fiscal 2012. Including the effects of the immaterial errors that were corrected during the

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following periods, which are described below, a roll forward of the Company's consolidated goodwill balance from June 30, 2011 to June 30, 2014 is as follows (in thousands):

	The Art Institutes	Argosy University	Brown Mackie Colleges	South University	Total
Balance Sheet as of June 30, 2011:					
Gross	$ 1,984,688	$ 219,350	$ 254,561	$ 123,400	$ 2,581,999
Accumulated impairments	—	—	—	—	—
Goodwill	1,984,688	219,350	254,561	123,400	2,581,999
Statement of Operations for the Fiscal Year Ended June 30, 2012:					
Impairment charge	(1,063,088)	(139,361)	(254,561)	(76,962)	(1,533,972)
Balance Sheet as of June 30, 2012:					
Gross	1,984,688	219,350	254,561	123,400	2,581,999
Accumulated impairments	(1,063,088)	(139,361)	(254,561)	(76,962)	(1,533,972)
Goodwill	921,600	79,989	—	46,438	1,048,027
Statement of Operations for the Fiscal Year Ended June 30, 2013:					
Impairment charge	(270,874)	—	—	—	(270,874)
Balance Sheet as of June 30, 2013:					
Gross	1,984,688	219,350	254,561	123,400	2,581,999
Accumulated impairments	(1,333,962)	(139,361)	(254,561)	(76,962)	(1,804,846)
Goodwill	650,726	79,989	—	46,438	777,153
Statement of Operations for the Fiscal Year Ended June 30, 2014:					
Impairment charge	(433,747)	—	—	—	(433,747)
Balance Sheet as of June 30, 2014:					
Gross	1,984,688	219,350	254,561	123,400	2,581,999
Accumulated impairments	(1,767,709)	(139,361)	(254,561)	(76,962)	(2,238,593)
Goodwill	$ 216,979	$ 79,989	$ —	$ 46,438	$ 343,406

Correction of Immaterial Errors

During the quarter ended March 31, 2014, the Company identified errors in prior periods in the calculation of deferred taxes that is required in connection with the hypothetical purchase price allocation performed in the step two portion of the goodwill impairment test. The errors in calculating the deferred taxes affected the magnitude of the goodwill impairment charges previously recorded during the fiscal years ended June 30, 2013 and 2012, and as a result, the goodwill impairment charges in the fiscal years ended June 30, 2013 and 2012 were decreased by $23.6 million and $84.5 million, respectively, and decreased previously reported net losses by $23.6 million (net of tax) and $82.2 million (net of tax). In connection with these revisions, the Company's consolidated goodwill balance increased by $108.1 million at June 30, 2013. The impact of these errors was not material to any prior period; however, the aggregate pre-tax amount of the prior period errors of $108.1 million would have been material to the Company's consolidated statements of operations for the fiscal year ended June 30, 2014. Consequently, the Company has corrected the errors by revising the impacted prior period balances on the accompanying consolidated financial statements and related notes. These revisions do not impact EBITDA excluding certain expenses as presented in Note 17, "Segment Reporting" nor do they affect the Company’s past compliance with debt covenants.

The following table summarizes the previously reported and corrected amounts of the impacted balances presented in the accompanying consolidated financial statements (in thousands except per share data).

	As Previously Reported	Adjustments	As Adjusted
Statement of Operations and Comprehensive Loss for the Fiscal Year Ended June 30, 2012			
Long-lived asset impairments	$ 1,746,765	$ (84,477)	$ 1,662,288
Loss before interest, loss on debt refinancing and income taxes	(1,409,680)	84,477	(1,325,203)
Loss before taxes	(1,529,484)	84,477	(1,445,007)
Income tax benefit	(13,743)	2,306	(11,437)
Net loss	(1,515,741)	82,171	(1,433,570)
Basic & diluted loss per share	(11.97)	0.65	(11.32)
Comprehensive loss	(1,521,588)	82,171	(1,439,417)
Statement of Shareholders' Equity for the Fiscal Year Ended June 30, 2012			
Accumulated deficit at June 30, 2012	(935,960)	82,171	(853,789)
Total shareholders' equity at June 30, 2012	496,564	82,171	578,735
Balance Sheet as of June 30, 2013			
Goodwill	669,090	108,063	777,153
Total assets	2,315,293	108,063	2,423,356
Deferred income taxes liability	70,316	2,306	72,622
Accumulated deficit	(1,203,936)	105,757	(1,098,179)
Total shareholders' equity	250,099	105,757	355,856
Total liabilities and shareholders' equity	2,315,293	108,063	2,423,356
Statement of Operations and Comprehensive Loss for the Fiscal Year Ended June 30, 2013			
Long-lived asset impairments	323,690	(23,586)	300,104
Loss before interest, loss on debt refinancing and income taxes	(126,043)	23,586	(102,457)
Loss before taxes	(255,938)	23,586	(232,352)
Net loss	(267,976)	23,586	(244,390)
Basic & diluted loss per share	(2.15)	0.19	(1.96)
Comprehensive loss	(263,580)	23,586	(239,994)
Statement of Shareholders' Equity for the Fiscal Year Ended June 30, 2013			
Accumulated deficit at June 30, 2013	(1,203,936)	105,757	(1,098,179)
Total shareholders' equity at June 30, 2013	250,099	105,757	355,856

Goodwill Impairment Charges

As previously disclosed, during the second quarter of fiscal 2014, the Company observed declining application trends for future academic terms, particularly at The Art Institutes reporting unit, and performed a sensitivity analysis of its fair value using the most recently completed long range forecast and available earnings multiples of the Company's peer group. This sensitivity analysis resulted in management concluding that none of its reporting units experienced a triggering event that would have required a step one interim goodwill impairment analysis at December 31, 2013. Additionally, The Art Institutes had positive year-over-year growth in new student enrollment during the second fiscal quarter.

During the quarter ended March 31, 2014, new students decreased approximately 16% at The Art Institutes compared to the prior year quarter. Due primarily to lower than anticipated application production for future periods at The Art Institutes together with a significant deterioration in the Company's market capitalization and credit rating downgrades during the third fiscal quarter resulted in management no longer believing that it was more-likely-than-not that the fair values of each of its reporting units exceeded their carrying values at March 31, 2014. As a result, management revised its long-term projections and performed a step one interim goodwill impairment test for each of its reporting units.

The results indicated that the Argosy University and South University reporting units had fair values in excess of their carrying values. However, the test indicated that the fair value of The Art Institutes fell below its carrying value as of March 31, 2014. Therefore, a step two test was required to be performed for The Art Institutes reporting unit, which yielded a goodwill impairment charge of $433.7 million in the quarter ended March 31, 2014. None of this charge was deductible for income tax purposes.

The step one interim impairment tests performed as of March 31, 2014 used cash flow projections and market data as of that date. The Company does not believe that cash flow projections or the earnings multiples of its publicly-traded peer companies changed materially between March 31, 2014 and the Company's annual assessment date, which is April 1, 2014. In addition, management considered the change in the Company's stock price between these dates and concluded that based on all the available evidence, the impairment test performed as of March 31, 2014 was appropriate to use as the Company's annual April 1, 2014 test.

During the quarter ended June 30, 2014, management made several decisions that materially affected the short-term projections at The Art Institutes and revised consolidated projections accordingly. In addition, the Company continued to experience significant deterioration in the market capitalization of its stock and declines in the fair values of its publicly-traded debt. These facts and circumstances, among others, resulted in the Company performing a step one interim goodwill impairment test for each of its reporting units at June 30, 2014, the results of which indicated that all reporting units had fair values in excess of their carrying values at June 30, 2014 by more than 25%.

At March 31 and June 30, 2014, the Company estimated the fair value of its reporting units in step one using a combination of the traditional discounted cash flow method (income approach) and the guideline public company method (market approach), which takes into account the relative price and associated earnings multiples of publicly-traded peer companies. Accordingly, these step one interim impairment tests used cash flow projections and market data as of March 31, 2014 and June 30, 2014.

The valuation of the Company's reporting units under the traditional discounted cash flow method requires the use of internal business plans that are based on judgments and estimates, which account for expected future economic conditions, demand and pricing for the Company's educational services, costs, inflation and discount rates, and other factors. The use of judgments and estimates involves inherent uncertainties. The Company's measurement of the fair values of its reporting units is dependent on the accuracy of the assumptions used and how the Company's estimates compare to future operating performance. The key assumptions used are, but not limited to, the following:

- Future cash flow assumptions — The Company's projections are based on organic growth and are derived from historical experience and assumptions regarding future growth and profitability trends. These projections also take into account the current economic climate and the extent to which the regulatory environment is expected to impact future growth opportunities. The Company's analysis incorporated an assumed period of cash flows of ten years with a terminal value determined using the Gordon Growth Model.

- Discount rate — The discount rate is based on each reporting unit's estimated weighted average cost of capital ("WACC"). The three components of WACC are the cost of equity, cost of debt and capital structure, each of which requires judgment by management to estimate. The Company develops its cost of equity estimate using the Capital Asset Pricing Model based on perceived risks and predictability of each reporting unit's future cash flows. The cost of debt component represents a market participant's estimated cost of borrowing, which the Company estimates using the average return on corporate bonds as of the valuation date, adjusted for taxes. At March 31, 2014, the WACC used to estimate the fair value of The Art Institutes reporting unit was 15.0%, and the Argosy University and South University reporting units were valued using a WACC of 17.5%. At June 30, 2014, the WACC used to estimate the fair value of The Art Institutes reporting unit was 15.5%, and the Argosy University and South University reporting units were valued using a WACC of 18.0%. The increase in the WACC for all three reporting units from March 31, 2013 to June 30, 2014 was the result of an increase in the industry-specific beta component of the WACC.

Intangible Assets

Intangible assets other than goodwill consisted of the following amounts (in thousands):

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tradename-Art Institute	$ 73,200	$ —	$ 190,000	$ —
Licensing, accreditation and Title IV program participation	87,862	—	95,862	—
Curriculum and programs	21,420	(14,379)	43,575	(32,596)
Student contracts, applications and relationships	10,510	(9,492)	39,511	(37,381)
Favorable leases and other	6,057	(5,355)	19,424	(17,960)
Total intangible assets	$ 199,049	$ (29,226)	$ 388,372	$ (87,937)

During the fiscal year ended June 30, 2014, the Company disposed of approximately $69 million of intangible assets that no longer had a useful life. Because these assets were fully amortized, this write-off had no impact to the consolidated statement of operations.

Trade names are often considered to have useful lives similar to that of the overall business, which generally means such assets are assigned an indefinite life for accounting purposes. State licenses and accreditations of the Company's schools as well as their eligibility for Title IV program participation are periodically renewed in cycles ranging from every year to up to every ten years depending upon government and accreditation regulations. Because the Company considers these renewal processes to be a routine aspect of the overall business, these assets are assigned indefinite lives. A roll forward of the Company's consolidated indefinite-lived intangible assets balances from June 30, 2011 to June 30, 2014 is as follows (in thousands):

	Tradename-Art Institute	Licensing, accreditation and Title IV program participation
Balance Sheet at June 30, 2011:		
Gross	$ 330,000	$ 112,179
Accumulated impairments	—	—
Net balance	330,000	112,179
Statement of Operations for the Fiscal Year Ended June 30, 2012:		
Impairment charge	(112,000)	(16,317)
Balance Sheet at June 30, 2012:		
Gross	330,000	112,179
Accumulated impairments	(112,000)	(16,317)
Net balance	218,000	95,862
Statement of Operations for the Fiscal Year Ended June 30, 2013:		
Impairment charge	(28,000)	—
Balance Sheet at June 30, 2013:		
Gross	330,000	112,179
Accumulated impairments	(140,000)	(16,317)
Net balance	190,000	95,862
Statement of Operations for the Fiscal Year Ended June 30, 2014:		
Impairment charge	(116,800)	(8,000)
Balance Sheet at June 30, 2014:		
Gross	330,000	112,179
Accumulated impairments	(256,800)	(24,317)
Net balance	$ 73,200	$ 87,862

Intangible Asset Impairments

In connection with the goodwill analyses performed as of March 31, 2014 and June 30, 2014 described above, the Company also performed impairment analyses with respect to indefinite-lived intangible assets at these dates. The fair value of The Art Institutes trade name was determined under the relief from royalty method (income approach), which is the same method the Company used to value this asset at the Transaction date. The relief from royalty method focuses on the level of royalty payments that the user of an intangible asset would have to pay a third party for the use of the asset if it were not owned by the user.

The Company recorded two impairments of The Art Institutes trade name totaling $116.8 million during the fiscal year ended June 30, 2014, utilizing the following key assumptions:

- a 15.5% discount rate and 1.5% royalty rate at March 31, 2014; and
- a 16.0% discount rate and a 1.0% royalty rate at June 30, 2014.

In the fiscal 2013 analysis, the Company used a royalty rate of 2.0%. The royalty rate decreased throughout the year due primarily to reductions in long term revenue forecasts at The Art Institutes compared to the prior year long range projections. The increase in the discount rate was consistent with the increase in the WACC used in the goodwill impairment analysis for The Art Institutes.

The Company also revalued the licensing, accreditation and Title IV program participation assets for all reporting units at March 31, 2014 and June 30, 2014 using the same approaches used to value these assets as of the date of the Transaction, which resulted in an $8.0 million impairment at The Art Institutes. A $16.3 million impairment of these assets was recorded during fiscal 2012, which consisted of $15.0 million at The Art Institutes and $1.3 million at Argosy University. These assets were valued by a combination of the cost and income approaches. The cost approach is used for the licensing and accreditation portions of this asset. Numerous factors are considered in order to estimate the Title IV portion of the asset, including the estimated amount of time it would take for an institution to qualify for Title IV funds as a new operation, the number of students currently receiving federal financial aid, the amount schools would have to lend students during the estimated time it would take to qualify for Title IV funds and the present value of projected cash flows.

During the fiscal year ended June 30, 2014, the Company recorded a $3.6 million charge in long-lived asset impairments in the consolidated statement of operations relating to definite-lived curriculum intangible assets at Argosy University as the estimated future cash flows could not support the carrying value of the asset. The charge was calculated using an income valuation approach.

Amortization of Intangible Assets

Amortization of intangible assets was $6.3 million, $6.8 million and $7.6 million during the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Total estimated amortization of the Company’s intangible assets for each of the years ending June 30, 2015 through 2019 was as follows at June 30, 2014 (in thousands):

Fiscal years	Amortization Expense
2015	$ 5,434
2016	2,936
2017	340
2018	51

6. STUDENT RECEIVABLES

The Company offers three types of financial arrangements to its students to assist with the obligation associated with tuition and fees, which helps students fund the difference between total tuition and fees and the amount covered by various sources of financial aid, including amounts awarded under Title IV programs, private loans and cash payments: due and payable amounts; a tuition payment plan; and lines of credit. Due and payable amounts are short-term extensions of credit for typically small balances which are repayable upon demand by the Company. Tuition payment plans are short-term credit extensions for 12 months or less. Lines of credit are extensions of credit which include a monthly minimum payment amount and permit students to repay amounts borrowed over a period of up to 42 months after graduation. During fiscal 2013, the Company extended the repayment period for financing made available to students from a maximum of 36 months beyond graduation to a maximum of 42 months beyond graduation. The majority of applicable line of credit accounts incur interest charges that accrue each month on unpaid balances except for those accounts that have been placed into collections. Student receivables include $29.3 million (net of $32.2 million allowance) and $24.3 million (net of $27.9 million allowance) recorded in other long-term assets on the accompanying balance sheets related to lines of credit to students for amounts due beyond one year.

The Company monitors its student receivables based on enrollment status. Receivables from former students who are in collections are reserved for at a very high rate. Receivables from former students that are out-of-school are reserved for at a higher rate than the receivables from students that are in-school. The gross current and non-current student receivables, which excludes loans awarded under the student lending program further described below, by student status were as follows at June 30 (in thousands):

	2014	2013
In-school	$ 236,144	$ 194,062
Out-of-school (1)	63,624	128,375
Collections	115,293	110,955
Gross student receivables	$ 415,061	$ 433,392

A roll forward of the Company's total allowance for doubtful accounts and loan loss reserves from June 30, 2011 to June 30, 2014 is as follows (in thousands):

Balance June 30, 2011	$	199,357
Bad debt expense		163,926
Amounts written off		(113,001)
Balance June 30, 2012		250,282
Bad debt expense		171,850
Amounts written off (2)		(213,884)
Balance June 30, 2013		208,248
Bad debt expense (1)		141,946
Amounts written off		(156,354)
Balance June 30, 2014	$	193,840

(1) Refer to Note 2, "Summary of Significant Accounting Policies," for details with respect to a correction in the Company's policy regarding the recognition of incremental revenue recorded when students withdraw.

(2) As explained in Note 2, "Summary of Significant Accounting Policies," the Company reduced the number of days after which accounts in collections are written off during fiscal 2013.

The amounts set forth above are recorded within student receivables, net and other long-term assets on the consolidated balance sheets. Recoveries of amounts previously written off were not significant in any period presented.

The Company commenced a new student lending program in fiscal 2013 under which it purchases loans awarded and disbursed to its students from a private lender. The loans purchased under this program are included in other long-term assets, net of an allowance, at an amount of $8.7 million and $0.4 million at June 30, 2014 and 2013, respectively, on the accompanying consolidated balance sheets.

7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at June 30 (in thousands):

	2014		2013	
Payroll and related taxes	$	35,918	$	39,330
Advertising		25,597		33,010
Benefits		15,345		16,235
Interest		7,900		10,416
Capital expenditures		7,387		4,113
Other		75,135		54,313
Total accrued liabilities	$	167,282	$	157,417

Over the past several fiscal years, the Company has completed restructuring plans across the organization intended to improve operational efficiencies and align costs with student enrollment levels. During the fiscal years ended June 30, the Company recorded the following restructuring expenses in educational services expense and general and administrative expense (in thousands):

	2014		2013		2012	
Employee severance and other	$	21,141	$	11,877	$	11,633
Leases		5,811		2,043		2,500
Total restructuring expense	$	26,952	$	13,920	$	14,133

At June 30, 2014, the remaining liability for all restructuring plans was $13.7 million, consisting of employee severance of $5.8 million recorded in accrued liabilities in which the significant majority will be paid through June 30, 2015 and net rent charges of $7.9 million recorded in deferred rent that will be paid through the remaining lease terms through 2022.

As further described in Note 14, "Commitments and Contingencies," the Company is involved in multiple legal matters. The increase in other accrued liabilities since June 30, 2013 primarily relates to amounts that have been recorded for such matters, the majority of which is offset by receivables from the Company's insurers that have been recorded in other current assets in the accompanying consolidated balance sheet.

8. SHORT-TERM AND LONG-TERM DEBT

Debt Restructuring

Refer to Note 2, "Summary of Significant Accounting Policies," under "Basis of Presentation" for a description of the debt restructuring in September 2014.

U.S. Department of Education Letters of Credit:

The Company had outstanding letters of credit of $307.6 million at June 30, 2014, the largest of which is issued to the U.S. Department of Education, which requires that the Company maintain a letter of credit due to its failure to satisfy certain regulatory financial ratios after giving effect to the Transaction. In January 2014, the U.S. Department of Education decreased the amount of the required letter of credit from $348.6 million to $302.2 million, which equals 15% of the total Title IV aid received by students attending the Company’s institutions during the fiscal year ended June 30, 2013.

During fiscal 2012, the Company entered into two cash secured letter of credit facilities pursuant to which the lenders agreed to issue letters of credit at any time to the U.S. Department of Education in an aggregate face amount of up to $200.0 million. The Company's obligations with respect to such letters of credit are secured by liens in favor of the lenders on certain of the Company's cash deposits, which must total at least 105% of the aggregate face amount of any outstanding letters of credit. The cash secured letter of credit facilities were amended in April 2014 to extend their maturities from July 8, 2014 to June 1, 2015 or earlier if the existing revolving credit facility is terminated. Any future reduction in the usage of the cash secured letter of credit facilities will reduce the amount of cash that is classified as restricted cash on the consolidated balance sheet.

As of June 30, 2014, in order to fund its current letter of credit obligation to the U.S. Department of Education, the Company used all $200.0 million of capacity under the cash secured letter of credit facilities, in connection with which the Company classifies $210.0 million as restricted cash to satisfy the 105% collateralization requirement described above and utilized $102.2 million letter of credit capacity under its revolving credit facility. Any future reduction in the usage of the cash secured letter of credit facilities will reduce the amount of cash that is classified as restricted cash on the consolidated balance sheet.

Short-Term Debt:

At June 30, 2014 and 2013, the Company had $219.9 million and $75.0 million, respectively, of borrowings outstanding under the $328.3 million revolving credit facility, which currently expires in July 2015 after giving effect to the pre-restructuring amendments to existing debt further described in Note 2, "Significant Accounting Policies." These borrowings existed in order to satisfy year-end regulatory financial ratios as well as aid in the ongoing negotiations with the Company's lenders. Outstanding balances under the revolving credit facility are classified as short-term debt on the consolidated balance sheets. After adjusting for outstanding letters of credit under the revolving credit facility, which decrease its availability for borrowings, the Company had $0.8 million additional capacity under the revolving credit facility at June 30, 2014 available for borrowings or issuance of letters of credit.

The interest rate on amounts outstanding at June 30, 2014 and 2013 under the revolving credit facility was 4.25%, which equals LIBOR plus a margin of 4.00%. The applicable margin for borrowings under the revolving credit facility can change dependent on certain leverage ratios and credit ratings. EM LLC is obligated to pay a per annum commitment fee on undrawn amounts under the revolving credit facility, which is currently 0.375% and varies based on certain leverage ratios. The Company must also pay customary letter of credit fees for outstanding letters of credit under the revolving credit facility, which is secured by certain of the Company's assets and is subject to the Company's satisfaction of certain covenants and financial ratios described below.

Long-Term Debt:

The Company’s long-term debt consisted of the following at June 30 (in thousands):

	2014	2013
Senior secured term loan facility, due in June 2016 ("Tranche C-2 Loan")	$ 728,369	$ 736,454
Senior secured term loan facility, due in March 2018, net of discount of $2,288 and $2,898 ("Tranche C-3 Loan")	339,183	342,364
Senior cash pay/PIK notes due 2018, net of discount of $22,335 and $27,712 ("Cash Pay/PIK Notes")	215,909	206,242
Other	—	180
Total long-term debt	1,283,461	1,285,240
Less current portion	(11,875)	(12,076)
Total long-term debt, less current portion	$ 1,271,586	$ 1,273,164

At June 30, 2014, future annual principal payments on long-term debt and the revolving credit facility were as follows for the fiscal years ending June 30 (in thousands):

Fiscal year:	**Amount**
2015	$ 231,765
2016	724,072
2017	3,753
2018	330,140
2019	255,944
Total	$ 1,545,674

These amounts are presented gross of the $2.3 million discount on the senior secured term loan facility due in March 2018 and the $22.3 million discount on the Cash Pay/PIK Notes and include $17.7 million of unamortized PIK interest that is capitalized to the principal balance of the Cash Pay/PIK Notes through its maturity in July 2018. The amendment to the senior credit facility and the terms of the new Indenture were effective upon execution on September 5, 2014 and therefore, eliminate a significant portion of principal payments for fiscal 2015 and beyond. Refer to Note 2, "Significant Accounting Policies," under "Basis of Presentation" for more information.

Senior Secured Credit Facilities:

The Tranche C-3 Loan bears interest at a rate equal to the greater of three-month LIBOR or 1.25%, plus a margin of 7.0%, or 8.25% at June 30, 2014 and 2013. The Tranche C-2 Loan bears interest at a rate equal to three-month LIBOR plus a margin of 4.00%, or 4.25% and 4.31% at June 30, 2014 and June 30, 2013, respectively.

On March 30, 2012, EM LLC completed a refinancing of the $348.6 million portion of the $1.1 billion term loan under its senior secured credit facility that was due to expire in June 2013 by replacing it with $350.0 million of new term debt under the same credit agreement and recorded a loss on debt refinancing of $9.5 million.

Senior Cash Pay/PIK Notes

On March 5, 2013, EM LLC and Education Management Finance Corp. (a wholly-owned subsidiary of EM LLC) completed a private exchange offer (the "Exchange Offer") in which they offered to exchange their 8.75% senior notes due June 1, 2014 ("Old Notes") for (i) new Senior Cash Pay/PIK Notes due July 1, 2018 ("Cash Pay/PIK Notes") and (ii) cash. In connection with the Exchange Offer, a simultaneous private exchange on the same terms and an extinguishment at par of the Old Notes not tendered in the Exchange Offer, the Company issued $203.0 million of Cash Pay/PIK Notes and paid down $172.0 million of Old Notes with cash on hand. Included in the $365.3 million of Old Notes tendered for exchange was $4.0 million owned by an affiliate of one of the Sponsors. The Company incurred $5.2 million of fees to third parties in connection with this transaction that were reported as a loss on debt refinancing in the consolidated statement of operations in the fiscal year ended June 30, 2013. Included in these third party fees was $2.9 million paid to affiliates of one of the Sponsors.

Cash interest on the Cash Pay/PIK Notes accrues at the rate of 15% per annum and is payable semi-annually on March 30 and September 30, commencing on September 30, 2013. For any interest period after March 30, 2014 up to and including July 1, 2018, interest in addition to the cash interest payable will be paid by increasing the principal amount of the outstanding PIK Notes (“PIK Interest”). Additionally, the Cash Pay/PIK Notes are required to be paid at a premium of 13% at their contractual maturity, which is recorded as an original issuance discount. Including PIK interest and the original issuance discount, the annual effective interest rate on the Cash Pay/PIK Notes is 19.8%.

9. DERIVATIVE INSTRUMENTS

In April 2011, the Company entered into three new interest rate swap agreements for an aggregate notional amount of $950.0 million, each of which became effective on July 1, 2011. One swap agreement, which expired on June 1, 2013, was for a notional amount of $325.0 million and effectively fixed future interest payments at a maximum rate of 9.44%. The other two swap agreements, one of which was entered into with an affiliate of one of the Sponsors, are for notional amounts of $312.5 million each and effectively fix future interest payments at a rate of 6.26% through June 1, 2015. The fair values of the interest rate swap liabilities were $11.2 million and $20.2 million at June 30, 2014 and 2013, and recorded in accrued liabilities and other long-term liabilities, respectively.

Historically, both interest rate swaps were highly effective for accounting purposes and have qualified for cash flow hedge accounting treatment. Accordingly, changes in their fair values have been recorded in other comprehensive income or loss. On September 4, 2014, in connection with the Debt Restructuring described in Note 2, "Summary of Significant Accounting Policies," under "Basis of Presentation," EM LLC entered into agreements to terminate its interest rate swaps at termination values payable to the counter-parties in the form of a combination of term loans and preferred stock. As a result, approximately $7 million will be reclassified from other comprehensive loss to the statement of operations, net of tax, during the first quarter of fiscal 2015.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determines the fair value of assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. The fair value hierarchy is based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions of what market participants would use. The fair value hierarchy includes three levels of inputs that may be used to measure fair value as described below.

Level One - Quoted prices for identical instruments in active markets.

Level Two - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations for which all significant inputs are observable market data.

Level Three - Unobservable inputs significant to the fair value measurement supported by little or no market activity.

In some cases, the inputs used to measure fair value may meet the definition of more than one level of fair value hierarchy. The lowest level input that is significant to the fair value measurement in its totality determines the applicable level in the fair value hierarchy.

The following table presents the carrying amounts and fair values of the interest rate swap liabilities, which are measured at fair value on a recurring basis based on the framework described in Note 9, "Derivative Instruments," and the fair values of the Company's debt, which is recorded at carrying value (in thousands):

	June 30, 2014				June 30, 2013			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Recurring:								
Interest rate swap liability	$ 11,223	$ —	$ 11,223	$ —	$ 20,232	$ —	$ 20,232	$ —
Disclosure only:								
Variable rate debt	1,067,552	—	824,715	—	1,078,818	—	962,134	—
Fixed rate debt	215,909	—	—	232,102	206,422	—	—	206,422

The fair values of the Company's variable rate debt at the dates presented above were based on each instrument's trading value in markets that are not active. The Company's fixed rate debt is comprised of the Company's Cash Pay/PIK Notes, on which there is currently no observable trading; therefore, the fair value of the Cash Pay/PIK Notes at June 30, 2014 was estimated using a premium of 107.5, which is the current call price. Cash and cash equivalents, restricted cash, student accounts receivable, notes receivable, the revolving credit facility, accounts payable and accrued expenses have fair values that approximate their carrying values.

As described in Note 4, "Property and Equipment" and Note 5, "Goodwill and Intangible Assets," the Company recorded asset impairments during fiscal 2014 and fiscal 2013. This resulted in the following assets being measured at fair value on a non-recurring basis using Level Three inputs:

- goodwill at The Art Institutes reporting unit at March 31, 2014 and March 31, 2013;
- the trade name for The Art Institutes reporting unit at June 30, 2014, March 31, 2014 and March 31, 2013;
- the licensing, accreditation and Title IV program participation assets at The Art Institutes reporting units at June 30, 2014;
- certain long-lived assets at the Brown Mackie Colleges and Argosy University reporting units.

11. INCOME TAXES

The composition of (loss) income before taxes from domestic and foreign locations was as follows for the fiscal years ended June 30 (in thousands):

	2014	2013	2012
Domestic	$ (619,243)	$ (233,153)	$ (1,446,575)
Foreign	1,963	801	1,568
Loss before taxes	$ (617,280)	$ (232,352)	$ (1,445,007)

The components of income tax expense (benefit) reflected in the accompanying consolidated statements of operations were as follows for the fiscal years ended June 30 (in thousands):

	2014	2013	2012
Current taxes:			
Federal	$ 7,472	$ 32,441	$ 104,730
State and local	2,891	(1,563)	14,027
Total current tax expense	10,363	30,878	118,757
Deferred tax expense (benefit)	36,274	(18,840)	(130,194)
Income tax expense (benefit)	$ 46,637	$ 12,038	$ (11,437)

Income tax expense (benefit) reflected in the accompanying consolidated statements of operations varies from the amounts that would have been provided by applying the United States federal statutory income tax rate to earnings before income taxes as shown below for the fiscal years ended June 30 (in thousands):

	2014	2013	2012
U.S. federal statutory income tax	$ (216,048)	$ (81,323)	$ (505,752)
State and local income taxes, net of federal benefit	(10,708)	(196)	(6,741)
Increase in valuation allowance	127,738	151	3,069
State tax settlements, net of federal benefit	—	(3,808)	—
Permanent items	1,880	2,913	1,477
Nondeductible goodwill	151,812	94,805	497,991
Uncertain tax positions	(2,956)	(490)	(602)
Other items, net	(5,081)	(14)	(879)
Income tax expense (benefit)	$ 46,637	$ 12,038	$ (11,437)

The effective tax rates in the current and prior fiscal years were significantly impacted by goodwill impairment charges, the majority of which were not deductible for income tax purposes.

Net deferred income tax assets and liabilities consisted of the following at June 30 (in thousands):

	2014	2013
Current deferred tax assets:		
Allowance for doubtful accounts	$ 71,689	$ 71,769
Accrued wages	3,481	6,872
Interest rate swap	4,887	—
Other	9,069	3,434
Gross current deferred tax assets	89,126	82,075
Less valuation allowance	(64,624)	(5,148)
Total current deferred tax assets	$ 24,502	$ 76,927
Noncurrent deferred tax assets:		
Interest rate swap	$ —	$ 8,819
Deferred liabilities	30,045	35,683
Foreign and state net operating losses	12,834	7,990
Property and equipment	7,847	—
Share-based compensation	25,493	24,023
Other	35,910	26,981
Gross noncurrent deferred tax assets	112,129	103,496
Less valuation allowance	(87,639)	(19,677)
Total noncurrent deferred tax assets	24,490	83,819
Noncurrent deferred tax liabilities:		
Intangible assets	82,569	130,491
Property and equipment	—	25,657
Other	498	293
Total noncurrent deferred tax liabilities	83,067	156,441
Total net noncurrent deferred tax liabilities	$ 58,577	$ 72,622

As discussed in Note 5, "Goodwill and Intangible Assets," the Company incurred long-lived asset impairment charges of $568.2 million, of which $433.7 million related to goodwill that was not deductible, and $300.1 million, of which $270.9 million related to goodwill that was not deductible, in fiscal 2014 and 2013, respectively. These impairment charges were a significant factor contributing to the Company being in a cumulative pre-tax loss position for the past three years. However, even if the goodwill impairment charges are excluded, the Company is still nonetheless in a cumulative pre-tax loss position for the past three years. Management considered the cumulative loss for book purposes as well as sources of taxable income and concluded that it was not more-likely-than-not that the Company's deferred tax assets would be fully realized. As such, the Company recorded a broader valuation allowance against both its federal and state deferred tax assets as of June 30, 2014. In contrast, as of June 30, 2013, the Company had recorded a valuation allowance only against certain state deferred tax assets.

At June 30, 2014, the Company had state net operating loss carryforwards of approximately $250.0 million available to offset future taxable income and a related deferred tax asset of $12.8 million. The carry forwards expire at varying dates beginning in fiscal 2025 through fiscal 2034. The Company has determined that it is currently more-likely-than-not that the deferred tax assets associated with $245.2 million of its state net operating loss carryforwards will not be realized and has established a valuation allowance equal to the gross deferred tax asset balance of $12.6 million related to these net operating loss carryforwards. In addition, certain of the Company's state net operating losses may be subject to annual limitations due to these states' adoption of the ownership change limitations imposed by Internal Revenue Code Section 382 or similar state provisions, which could result in the expiration of the state net operating loss carryforwards before they can be utilized.

The recognition and measurement of tax benefits associated with uncertain income tax positions requires the use of judgment and estimates by management, which are inherently subjective. Changes in judgment about uncertain tax positions taken in previous periods may result from new information concerning an uncertain tax position, completion of an audit or the expiration of statutes of limitation. These changes may create volatility in the Company's effective tax rate in future periods.

A reconciliation of the beginning and ending balance of unrecognized tax benefits, excluding interest expense and the indirect benefits of state taxes, for the fiscal years ended June 30 is as follows (in thousands):

	2014	2013	2012
Unrecognized tax benefits, beginning of year	$ 3,962	$ 4,523	$ 5,438
(Decrease) in prior year unrecognized tax benefits	—	—	(93)
Increase in current year unrecognized tax benefits	—	127	58
(Decrease) in unrecognized tax benefits due to the expiration of statutes of limitation	(2,926)	(688)	(880)
Unrecognized tax benefits, end of year	$ 1,036	$ 3,962	$ 4,523

All of the Company's $1.0 million in unrecognized tax benefits, excluding interest expense and the indirect benefit of state taxes, would affect the annual effective tax rate if recognized. It is reasonably possible that the total amount of unrecognized tax benefits will decrease by $0.8 million within the next twelve months due to the expiration of certain statutes of limitation. The resulting benefit, if recognized, would affect the tax rate as a discrete item in the quarter ending March 31, 2015. Interest expense and penalties accrued in connection with unrecognized tax benefits were not significant in fiscal 2014, 2013 and 2012.

The statutes of limitation for the Company's U.S. income tax returns are closed for years through fiscal 2010. The Company's U.S. income tax return for fiscal 2011 was examined by the Internal Revenue Service. The Internal Revenue Service closed the examination without making any adjustments to the return. The statutes of limitation for the Company's state and local income tax returns for prior periods vary by jurisdiction. However, the statutes of limitation with respect to the major jurisdictions in which the Company files state and local tax returns are generally closed for years through fiscal 2009.

During the current fiscal year, the state of Pennsylvania enacted legislation which, among other things, changed how revenues from the sale of services are sourced for Pennsylvania income tax purposes effective for tax years beginning after December 31, 2013, which for the Company is fiscal 2015. The Company recorded the impact of this law change, which management estimated will result in a deferred tax benefit of approximately $3.2 million, as a discrete item in the first quarter of fiscal 2014. In addition, the state of New York enacted legislation during the current fiscal year which, among other things, changed the state's corporate income tax rate, the tax filing methodology, and how revenues from the sales are services are sourced for New York income tax purposes. The Company recorded the impact of this law change, which management estimated will result in a deferred tax benefit of approximately $3.3 million, as a discrete item in the third quarter of fiscal 2014.

12. SHARE-BASED COMPENSATION

Overview

The Company awards share-based compensation under the Education Management Corporation 2012 Omnibus Long-Term Incentive Plan (the "2012 Omnibus Plan"), which replaced the Education Management Corporation Omnibus Long-Term Incentive Plan (the "2009 Omnibus Plan") that became effective upon the completion of the Initial Public Offering. The 2009 Omnibus Plan and the 2006 Stock Option Plan, which it replaced, are now frozen. The 2012 Omnibus Plan may be used to issue stock options, stock appreciation rights, restricted stock, restricted stock units and other forms of long-term incentive compensation.

The Company amended the 2012 Omnibus Plan in November 2013 to increase the number of shares of Common Stock authorized for issuance by 4.0 million and to allow the Company the ability to grant future cash and stock-based awards that generally have a performance period of one year. As of June 30, 2014, approximately 7.7 million shares of Common Stock remain reserved for issuance under the 2012 Omnibus Plan.

The Company recognized $16.4 million, $17.1 million and $13.3 million of share-based compensation expense related to outstanding time-based stock options, restricted stock and other awards during fiscal 2014, 2013 and 2012, respectively. Compensation expense for fiscal 2014 and 2013 includes additional expense recognized upon the termination of former employees who are were no longer required to provide services to obtain certain awards in accordance with the terms of their employment agreements.

During the fiscal year ended June 30, 2014, the Company issued 1.7 million shares of Common Stock related to share-based compensation activity that resulted in gross excess tax benefits of $3.4 million and stock-option exercise proceeds of $3.0 million. The Company received approximately $2.4 million from option holders in fiscal 2012 from the exercise of stock options, on which the excess tax benefit was $0.3 million. Share-based compensation activity was not significant in fiscal 2013. Gross excess tax benefits and stock-option exercise proceeds are classified as cash inflows from financing activities in the accompanying consolidated statement of cash flows.

In connection with the vesting of restricted stock units that occurred in the fiscal year ended June 30, 2014, the Company paid $3.3 million in minimum tax withholdings on behalf of its employees, which is classified as a cash outflow from financing activities. In exchange, the Company retained 0.3 million shares, which was equal to the value of the required tax withholding payments on the vesting dates.

Time-based Stock Options

The Company utilizes the Black-Scholes-Merton method to estimate the fair value of time-based options. The expected term of the Company's options is determined using a simplified method based on the average of the weighted vesting terms and the contractual term of the options. Expected volatility is determined using the historical volatility of a six-company peer group, all of which have publicly traded stock. The risk-free interest rate assumption is determined using the yield on a zero-coupon U.S. Treasury strip by extrapolating to a forward-yield curve. The Company has not historically declared dividends and does not intend to do so in the foreseeable future; therefore, a dividend yield of zero is used. Finally, the forfeiture rate at the date of grant (as depicted in the table below) is generally determined using a historical rate based on actual experience; however, management reviews actual forfeitures on a periodic basis and updates actual and estimated future compensation expense accordingly. Below is a summary of the weighted-average assumptions used for time-based options granted during the years ended June 30, which excludes the replacement options granted in fiscal 2013 in connection with the Options Exchange that is explained separately below:

	2014	2013	2012
Weighted average fair value of options	$ 7.66	$ 2.76	$ 9.29
Expected dividend yield	—%	—%	—%
Expected volatility	64.0%	78.6%	45.0%
Risk-free interest rate	1.9%	1.2%	1.5%
Expected forfeiture rate at the date of grant	12.9%	—%	7.3%
Expected term	6.25 years	7.5 years	6.25 years
Vesting periods	4 years	4 years	4 years

A roll forward of time-based option activity during fiscal 2014 is presented below.

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2013	10,989	$ 4.06	7.5 years	$ 17,120
Granted	1,534	$ 12.74		
Forfeited	(911)	$ 5.54		
Exercised	(753)	$ 3.58		
Expired	(159)	$ 3.57		
Outstanding at June 30, 2014	10,700	$ 4.81	6.9 years	
Exercisable at June 30, 2014	4,498	$ 3.61	4.7 years	$ —

Restricted Stock Units

A roll forward of restricted stock units ("RSU") activity during fiscal 2014 is presented below.

	RSUs (in thousands)	Weighted Average Share Price
Outstanding at June 30, 2013	3,020	$ 3.47
Granted	668	$ 12.74
Vested	(968)	$ 3.64
Forfeited	(648)	$ 4.45
Outstanding at June 30, 2014	2,072	$ 6.04

During fiscal 2014, the Company used a weighted average expected forfeiture rate for restricted stock units on their grant dates of 15.2%.

Performance-based Stock Options

Performance-based stock options vest upon the greater of the percentage of the Company's common stock sold by certain investment funds affiliated with Providence Equity Partners and Goldman Sachs Capital Partners (together, the "Principal Stockholders") or on certain return on investment hurdles achieved by the Principal Stockholders. No performance-based options have been granted since fiscal 2009 except for the replacement options granted in connection with the Options Exchange in fiscal 2013 explained below. At June 30, 2014, approximately 920,000 performance-based stock options with a weighted average exercise price of $3.59 per share and expiration dates ranging from August 2016 through October 2018 remain outstanding.

Long-Term Incentive Compensation Plan

In fiscal 2007, EDMC adopted the Long-Term Incentive Compensation Plan (the "LTIC Plan"). The LTIC Plan consists of a bonus pool that is valued based on returns to Providence Equity Partners and Goldman Sachs Capital Partners in connection with a change in control of EDMC. Out of a total of 1,000,000 units authorized, approximately 367,000 units remain outstanding under the LTIC Plan at June 30, 2014. Each unit represents the right to receive a payment based on the value of the bonus pool. Because the contingent future events that would result in value to the unit-holders are less than probable, no compensation expense has been recognized by the Company during any of the periods following the Transaction. The LTIC Plan is being accounted for as an equity-based plan as the units may be settled in stock or cash at the Company's discretion, and it is the Company's intent to settle any future payment out of the LTIC Plan by issuing common stock. At June 30, 2014, there is less than $1 million in unrecognized compensation expense related to the LTIC Plan.

Unrecognized Compensation Expense

Net of expected forfeitures, the Company's unrecognized compensation expense was as follows at June 30, 2014 for each type of award outstanding (in thousands):

Time-based stock options	$	19,149
Restricted stock units		8,627
Performance-based stock options		2,019
Total unrecognized compensation expense	$	29,795

Compensation expense on time-based stock options and restricted stock units will be recognized over the remaining vesting period for each applicable grant. Compensation expense on performance-based stock options and the LTIC Plan will be recognized once the performance conditions described above become probable of being met. However, pursuant to the debt restructuring described in Note 2, "Significant Accounting Policies," under "Basis of Presentation," any future change in control of EDMC would cause all outstanding stock-options to become fully vested, which would result in the unrecognized compensation expense at the date of a change in control being recognized immediately at this time.

Option Exchange

In August 2012, the Company's Board of Directors authorized a program (the "Option Exchange") to allow eligible option holders the opportunity to exchange their existing EDMC stock options for replacement stock options having an exercise price of $3.59 per share, which was the closing price for a share of the Company's Common Stock on the Nasdaq Global Select Market ("NASDAQ") on September 13, 2012, the date on which the offer expired.

In connection with the Option Exchange, the Company granted approximately 6.3 million time-based and 2.0 million performance-based replacement stock options in return for the cancellation of approximately 8.5 million time-based and 3.0 million performance-based stock options. The Option Exchange was accounted for as a modification of the original awards. Consequently, incremental value to the option holders was calculated using a Black-Scholes-Merton pricing model by taking the value of all time-based stock options on September 13, 2012 using the original option award terms and comparing that to the value of the modified time-based stock options using the new option award terms on September 13, 2012. Because the original awards had exercise prices well in excess of the price of a share of Common Stock on the modification date, the Company used a lattice model to determine the appropriate expected term to use in the Black-Scholes-Merton model. The modification of the original awards resulted in $2.2 million of incremental compensation expense for time-based options, net of expected forfeitures, that is being recognized over the applicable employee service periods, which range from one year to four years.

13. OTHER EMPLOYEE BENEFIT PLANS

At June 30, 2014, the Company sponsors a 401(k) plan that covers substantially all employees under which the Company matches employee contributions to the retirement plan dollar for dollar up to 6%. All participants in the plan vest in the Company's matching contributions immediately. The Company recorded expense related to the retirement plan of approximately $26.0 million, $27.1 million and $28.5 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Effective September 20, 2014, the Company will suspend its matching program indefinitely.

14. COMMITMENTS AND CONTINGENCIES

Qui Tam Matters

Washington v. Education Management Corporation. On May 3, 2011, a *qui tam* action captioned *United States of America, and the States of California, Florida, Illinois, Indiana, Massachusetts, Minnesota, Montana, New Jersey, New Mexico, New York and Tennessee, and the District of Columbia, each ex rel. Lynntoya Washington and Michael T. Mahoney v. Education Management Corporation, et al.* ("Washington") filed under the federal False Claims Act in April 2007 was unsealed due to the U.S. Department of Justice's decision to intervene in the case. Five of the states listed on the case caption joined the case based on *qui tam* actions filed under their respective False Claims Acts. The Court granted the Company's motion to dismiss the District of Columbia from the case and denied the Commonwealth of Kentucky's motion to intervene in the case under its consumer protection laws.

The case, which is pending in federal district court in the Western District of Pennsylvania, relates to whether the Company's compensation plans for admission representatives violated the HEA and U.S. Department of Education regulations prohibiting an institution participating in Title IV programs from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments to any person or entity engaged in any student recruitment or admissions activity during the period of July 1, 2003 through June 30, 2011. The complaint was initially filed by a former admissions representative at The Art Institute of Pittsburgh Online Division and a former director of training at EDMC Online Higher Education and asserts the relators are entitled to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary penalties. The complaint does not specify the amount of damages sought but claims that the Company and/or students attending the Company's schools received over $11 billion in funds from participation in Title IV programs and state financial aid programs during the period of alleged wrongdoing.

On May 11, 2012, the Court ruled on the Company's motion to dismiss the case for failure to state a claim upon which relief can be granted, dismissing the claims that the design of the Company's compensation plan for admissions representatives, which included both quantitative and qualitative factors, violated the incentive compensation rule and allowing common law claims and the allegations that the plan as implemented violated the rule to continue to discovery. On May 8, 2014, the Court denied the Company's motion for summary judgment based on a statistical analysis of the salary adjustments for admissions representatives under the compensation plan. The Company believes the case to be without merit and intends to vigorously defend itself. From time to time, the Company engages in settlement discussions with respect to this case. At this time, the Company is unable to estimate the amount of any reasonably possible loss related to this matter because of the status of current settlement negotiations and the fact that the Company is only willing to settle the case if a settlement can be negotiated in an amount that the Company believes is reasonable. There can be no assurance that the settlement conversations will lead to a settlement acceptable to all parties and approved by all parties. There can also be no assurance that any settlement will be within amounts currently accrued or be covered by insurance or not be material to the Company.

In July 2014, our excess insurer filed a declaratory judgment action in federal district court in the Western District of Pennsylvania seeking a ruling that it has no liability to provide coverage to us in connection with Washington and the other qui tam litigation matters. Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point.

Sobek v. Education Management Corporation. On March 13, 2012, a *qui tam* action captioned *United States of America, ex rel. Jason Sobek v. Education Management Corporation, et al*. filed under the federal False Claims Act on January 28, 2010 was unsealed after the U.S. Department of Justice declined to intervene in the case. The case, which is pending in the federal district court in the Western District of Pennsylvania, alleges that the defendants violated the U.S. Department of Education's regulation prohibiting institutions from making substantial misrepresentations to prospective students, did not adequately track student academic progress and violated the U.S. Department of Education's prohibition on the payment of incentive compensation to admissions representatives. The complaint was filed by a former project associate director of admissions at EDMC Online Higher Education who worked for South University and asserts the relator is entitled to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary penalties. The complaint does not specify the amount of damages sought but claims that the Company's institutions were ineligible to participate in Title IV programs during the period of alleged wrongdoing.

In August 2013, the parties to the action, along with the U.S. Department of Justice, participated in a private mediation in which the relator and defendants reached an agreement in principle regarding the financial terms of a potential settlement. The agreement between the parties remains subject to approval by the U.S. Department of Justice. Significant terms remain to be negotiated, and there is no certainty that a final agreement will be reached. The settlement amount agreed to by the parties under the terms of the agreement in principle would be paid by the Company's insurer and the Company would pay an immaterial amount of attorneys' fees incurred by the relator. The ultimate dismissal of the action, should a final settlement be reached, is subject to the Court's approval.

In the course of settlement discussions regarding the *Sobek* matter, the U.S. Department of Justice informed the Company that it is the subject of an investigation related to a claim under the federal false claims act by the U. S. Attorney's Office for the Middle District of Tennessee. Additionally, in March 2014 the U.S. Department of Justice informed the Company that it is the subject of an investigation related to a claim under the federal false claims act by the U.S. Attorney's Office for the Western District of Pennsylvania. The Company plans to cooperate with the U.S. Department of Justice with regard to these matters. However, the Company cannot predict the eventual scope, duration or outcome of the investigations at this time nor can it estimate any amount of a reasonably possible loss related to these investigations because of their status.

Shareholder Derivative Lawsuits

On May 21, 2012, a shareholder derivative class action captioned *Oklahoma Law Enforcement Retirement System v. Todd S. Nelson, et al.* was filed against the directors of the Company in state court located in Pittsburgh, PA. The Company is named as a nominal defendant in the case. The complaint alleges that the defendants violated their fiduciary obligations to the Company's shareholders due to the Company's violation of the U.S. Department of Education's prohibition on paying incentive compensation to admissions representatives, engaging in improper recruiting tactics in violation of Title IV of the HEA and accrediting agency standards, improper classification of job placement data for graduates of its schools and failure to satisfy the U.S. Department of Education's financial responsibility standards. The Company previously received two demand letters from the plaintiff which were investigated by a Special Litigation Committee of the EDMC Board of Directors and found to be without merit.

The Company and the director defendants filed a motion to dismiss the case with prejudice on August 13, 2012. In response, the plaintiffs filed an amended complaint making substantially the same allegations as the initial complaint on September 27, 2012. The Company and the director defendants filed a motion to dismiss the amended complaint on October 17, 2012. On July 16, 2013, the Court dismissed the claims that the Company engaged in improper recruiting tactics and mismanaged the Company's financial well-being with prejudice and found that the Special Litigation Committee could conduct a supplemental investigation of the plaintiff's claims related to incentive compensation paid to admissions representatives and graduate placement statistics. The Special Litigation Committee filed supplemental reports on October 15, 2013, January 9, 2014 and February 28, 2014, finding no support for the incentive compensation and graduate placement statistic claims. The Court held a hearing on the defendants' supplemental motion to dismiss the case on January 29, 2014 and granted the plaintiff's request for limited discovery on June 11, 2014.

On August 3, 2012, a shareholder derivative class action captioned *Stephen Bushansky v. Todd S. Nelson, et al.* was filed against certain of the directors of the Company in federal district court in the Western District of Pennsylvania. The Company is named as a nominal defendant in the case. The complaint alleges that the defendants violated their fiduciary obligations to the Company's shareholders due to the Company's use of improper recruiting, enrollment admission and financial aid practices and violation of the U.S. Department of Education's prohibition on the payment of incentive compensation to admissions representatives. The Company previously received a demand letter from the plaintiff which was investigated by a Special Litigation Committee of the EDMC Board of Directors and found to be without merit. The Company believes that the claims set forth in the complaint are without merit and intends to vigorously defend itself. The Company and the named director defendants filed a motion to stay the litigation pending the resolution of the *Oklahoma Law Enforcement Retirement System* shareholder derivative case or, alternatively, dismiss the case on October 19, 2012. On August 5, 2013, the Court granted the Company's motion to stay the case in light of the ruling on the defendants' motion to dismiss the *Oklahoma Law Enforcement Retirement System* case.

Because of the many questions of fact and law that may arise, the outcome of these legal proceedings is uncertain at this point. Based on the information presently available, the Company cannot reasonably estimate a range of loss for these actions and, accordingly, has not accrued any liability associated with these actions.

Securities Class Action

On September 19, 2014, a securities class action complaint captioned *Robb v. Education Management Corporation*, et. al was filed against the Company and certain of its executive officers. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act of 1934 and rule 10b-5 promulgated thereunder due to allegedly materially false and misleading statements made by the Company during the period of August 8, 2012 through September 16, 2014 in connection with the Company's filings with the SEC, press releases and other statements and documents. 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 the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

OIG Subpoena

On May 24, 2013, the Company received a subpoena from the Office of Inspector General of the U.S. Department of Education requesting policies and procedures related to Argosy University's attendance, withdrawal and return to Title IV policies during the period of July 1, 2010 through December 31, 2011 and detailed information on a number of students who enrolled in Argosy University's Bachelor's of Psychology degree program. The Company plans to cooperate with the Office of Inspector General in connection with its investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

State Attorneys General Investigations

The Company received inquiries from 13 states in January 2014 and an additional state in March 2014 regarding the Company’s business practices. The Attorney General of the Commonwealth of Pennsylvania informed the Company that it will serve as the point of contact for the inquiries related to the Company. The inquiries 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. Several other companies in the proprietary education industry have disclosed that they received similar inquiries. The Company has cooperated with the states involved and, from time to time, engaged in preliminary discussions designed to lead to a settlement of the investigation. However, the Company is unable to estimate the amount of any reasonably possible loss related to this matter or the eventual scope, duration or outcome of the investigation due to the nature and status of the preliminary discussions.

In January 2013, The New England Institute of Art received a civil investigative demand from the Commonwealth of Massachusetts Attorney General requesting information for the period from January 1, 2010 to the present pursuant to an investigation of practices by the school in connection with marketing and advertising job placement and student outcomes, the recruitment of students and the financing of education. The Company previously responded to a similar request that The New England Institute of Art received in June 2007 and intends to continue to cooperate with the Attorney General in connection with its investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In August 2011, the Company received a subpoena from the Attorney General of the State of New York requesting documents and detailed information for the time period of January 1, 2000 through the present. The Art Institute of New York City is the Company's only school located in New York though the subpoena also addresses fully-online students who reside in the State. The subpoena is primarily related to the Company's compensation of admissions representatives and recruiting activities. The relators in the Washington *qui tam* case filed the complaint under the State of New York's False Claims Act though the state has not announced an intention to intervene in the matter. The Company intends to continue to cooperate with the investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In December 2010, the Company received a subpoena from the Office of Consumer Protection of the Attorney General of the Commonwealth of Kentucky requesting documents and detailed information for the time period of January 1, 2008 through December 31, 2010. The Company has three Brown Mackie College locations in Kentucky. The Kentucky Attorney General announced an investigation of the business practices of proprietary post-secondary schools and that subpoenas were issued to six proprietary colleges that do business in Kentucky in connection with the investigation. The Company intends to continue to cooperate with the investigation. However, the Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

In October 2010, Argosy University received a subpoena from the Florida Attorney General's office seeking a wide range of documents related to the Company's institutions, including the nine institutions located in Florida, from January 2, 2006 to the present. The Florida Attorney General has announced that it is investigating potential misrepresentations in recruitment, financial aid and other areas. The Company is cooperating with the investigation, but has also filed a suit to quash or limit the subpoena and to protect information sought that constitutes proprietary or trade secret information. The Company cannot predict the eventual scope, duration or outcome of the investigation at this time nor can it estimate any amount of a reasonably possible loss related to the investigation because of its status.

Argosy University, Seattle APA Program Accreditation Lawsuits

In August 2013, a petition was filed in the Superior Court of the State of Washington (King County) in the case of *Winters, et al. v. Argosy Education Group, et al.* by 20 former students in the Clinical Psychology program offered by the Seattle campus of Argosy University. In December 2013, a similar petition was filed in the same court in the case of *McMath,* *et al. v. Argosy Education Group, et al.* by nine former students in the Clinical Psychology program offered by the Seattle campus of Argosy University. Both cases allege negligent misrepresentation due to the failure of the Clinical Psychology program to obtain accreditation from the American Psychology Association ("APA"), breach of contract, violation of the Washington State Consumer Protection Act, negligent infliction of emotional distress, negligence and lack of institutional control, negligent misrepresentation, breach of fiduciary duty, negligent failure to disclose and fraud. The Seattle campus of Argosy University announced that it was teaching-out (i.e., not accepting new students into the program) the Clinical Psychology program in November 2011 due to the inability to obtain APA accreditation. The Company believes the claims in the lawsuits to be without merit and intends to vigorously defend itself. Because of the many questions of fact and law that may arise, the outcome of these legal proceedings is uncertain at this point. Based on the information presently available, the Company cannot reasonably estimate a range of loss for these actions and, accordingly, has not accrued any liability associated with these actions.

Other Matters

The Company is a defendant in certain other legal proceedings arising out of the conduct of its business. Additionally, the Company is subject to compliance reviews by various state and federal agencies which provide student financial aid programs, of which noncompliance may result in liability for educational benefits paid as well as fines and other corrective action. In the opinion of management, based upon an investigation of these matters and discussion with legal counsel, the ultimate outcome of such other legal proceedings and compliance reviews, individually and in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

Lease Commitments

The Company leases certain classroom, dormitory and office space as well as equipment and automobiles under operating leases that expire on various future dates. Rent expense under these leases was $215.9 million, $202.3 million and $191.8 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Rent expense also includes short-term commitments for student housing of $50.1 million, $47.9 million and $51.4 million during the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Certain of the Company's operating leases contain provisions for escalating payments and options for renewal.

As of June 30, 2014, the annual minimum future commitments under non-cancelable, long-term operating leases were as follows for the fiscal years ending June 30, 2015 to 2019 and thereafter (in thousands):

2015	$	184,954
2016		149,890
2017		142,686
2018		125,514
2019		110,384
Thereafter		303,765

Other Commitments

At June 30, 2014, the Company has provided $19.3 million of surety bonds primarily provided to state regulatory agencies. The Company is required to maintain a deposit in a collateral account for a portion of the bond amount outstanding, which has resulted in $7.3 million being classified as restricted cash at June 30, 2014.

15. RELATED PARTY TRANSACTIONS

South University LLC, a wholly-owned subsidiary of the Company, leased facilities under a long-term arrangement from two separate entities owned by John T. South, one of the Company's executive officers. Total rental payments under these arrangements approximated $0.5 million and $2.1 million in fiscal 2013 and 2012, respectively. The facilities were sold to an unrelated third party in September 2012. Mr. South paid the Company $0.8 million in connection with the closing of the sale of the properties due to the Company's renegotiation of the leases prior to the sale.

In connection with the March 2013 and March 2012 refinancings described in Note 8, "Short-Term and Long-Term Debt," the Company paid $2.9 million and $0.7 million, respectively, to affiliates of Goldman Sachs Capital Partners, one of the Sponsors. The Company utilized United States Security Associates ("USSA") for security services for several of its schools through the first half of fiscal 2013, for which an affiliate of one of Goldman Sachs Capital Partners owns a significant equity stake. Fees paid to USSA were approximately $1.4 million and $2.7 million during fiscal 2013 and 2012, respectively.

The Company does business with two companies affiliated with Leeds Equity Partners, one of the Sponsors. The Company licenses student information system software from Campus Management Corp ("CMC"). The Company paid licensing, maintenance and consulting fees to CMC of approximately $2.8 million, $3.2 million and $2.1 million in the fiscal years ended June 30, 2014, 2013 and 2012, respectively. The Company also uses PeopleScout, Inc., d/b/a StudentScout for contact management services when processing some of its inquiries from prospective students. During fiscal 2014, 2013 and 2012, the Company paid servicing fees to StudentScout of approximately $0.9 million, $1.8 million and $3 million, respectively. The Company also utilizes Ex Libris for information technology maintenance, which was owned by Leeds Equity Partners through November 2012. The Company paid Ex Libris $0.3 million in each of the fiscal years ended June 30, 2013 and 2012.

The Company also does business with several companies affiliated with Providence Equity Partners, one of the Sponsors. The Company purchases software and related supplies from CDW Corporation and its affiliates, the largest of which is CDW Government, Inc. (collectively, “CDW”). During fiscal 2014, 2013 and 2012, the Company purchased approximately $4.4 million, $0.7 million and $0.3 million, respectively, of equipment from CDW. The Company also uses Assessment Technologies Institute, LLC for computer software that tests the skills of the Company’s students in various academic fields. During fiscal 2014, 2013 and 2012, the Company paid Assessment Technologies Institute, LLC approximately $0.8 million, $0.7 million and $0.5 million, respectively. The Company has also engaged Kroll Ontrack for litigation management and electronic discovery document retention. Total fees paid to Kroll Ontrack related to such services approximated $5.2 million, $0.5 million and $0.4 million in fiscal 2014, 2013 and 2012, respectively.

16. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

The Cash Pay/PIK Notes described in Note 8, "Short-Term and Long-Term Debt" are fully and unconditionally guaranteed by EDMC and all of EM LLC’s existing direct and indirect domestic restricted subsidiaries, other than any subsidiary that directly owns or operates a school, or has been formed for such purposes, and subsidiaries that have no material assets (collectively, the “Guarantor Subsidiaries”). All other subsidiaries of EM LLC, either direct or indirect, (the “Non-Guarantor Subsidiaries”) do not guarantee the Cash Pay/PIK Notes. The following legal entities, which are wholly owned by EM LLC, became part of the Guarantor Subsidiaries after June 30, 2014:

- Brown Mackie Education Corporation;
- Education Finance II LLC;
- South University Research Corporation; and
- The Art Institutes International LLC.

The following tables present the condensed consolidated financial position of EM LLC, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and EDMC as of June 30, 2014 and 2013. The results of operations and comprehensive loss and the condensed statements of cash flows for the fiscal years ended June 30, 2014, 2013 and 2012 are also presented for EM LLC, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and EDMC.

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CONDENSED CONSOLIDATED BALANCE SHEET
June 30, 2014 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	EM LLC Consolidated	EDMC	Eliminations	EDMC Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ (14,680)	$ 83	$ 234,478	$ —	$ 219,881	$ 50,686	$ —	$ 270,567
Restricted cash	42,916	—	221,490	—	264,406	7,275	—	271,681
Student and other receivables, net	442	144	267,504	—	268,090	—	—	268,090
Other current assets	30,049	888	34,691	—	65,628	—	—	65,628
Total current assets	58,727	1,115	758,163	—	818,005	57,961	—	875,966
Property and equipment, net	66,901	5,804	356,752	—	429,457	—	—	429,457
Goodwill	7,328	—	336,078	—	343,406	—	—	343,406
Intangible assets, net	901	19	168,903	—	169,823	—	—	169,823
Investment in subsidiaries	356,375	—	—	(356,375)	—	(471,203)	471,203	—
Intercompany balances	668,366	(34,161)	(761,313)	—	(127,108)	127,108	—	—
Other long-term assets	25,314	—	33,070	—	58,384	—	—	58,384
Total assets	$ 1,183,912	$ (27,223)	$ 891,653	$ (356,375)	$ 1,691,967	$ (286,134)	$ 471,203	$ 1,877,036
Liabilities and shareholders' equity (deficit)								
Current liabilities:								
Current portion of long-term debt and revolving credit facility	$ 231,765	$ —	$ —	$ —	$ 231,765	$ —	$ —	$ 231,765
Other current liabilities	129,892	2,913	270,755	—	403,560	—	—	403,560
Total current liabilities	361,657	2,913	270,755	—	635,325	—	—	635,325
Long-term debt, less current portion	1,271,586	—	—	—	1,271,586	—	—	1,271,586
Other long-term liabilities	21,695	119	174,607	—	196,421	—	—	196,421
Deferred income taxes	177	120	59,541	—	59,838	(1,261)	—	58,577
Total liabilities	1,655,115	3,152	504,903	—	2,163,170	(1,261)	—	2,161,909
Total shareholders' equity (deficit)	(471,203)	(30,375)	386,750	(356,375)	(471,203)	(284,873)	471,203	(284,873)
Total liabilities and shareholders' equity (deficit)	$ 1,183,912	$ (27,223)	$ 891,653	$ (356,375)	$ 1,691,967	$ (286,134)	$ 471,203	$ 1,877,036

CONDENSED CONSOLIDATED BALANCE SHEET
June 30, 2013 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	EM LLC Consolidated	EDMC	Eliminations	EDMC Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ (10,777)	$ 139	$ 141,110	$ —	$ 130,472	$ 223	$ —	$ 130,695
Restricted cash	46,982	—	224,358	—	271,340	—	—	271,340
Student and other receivables, net	134	253	238,565	—	238,952	1	—	238,953
Other current assets	27,488	570	102,573	—	130,631	—	—	130,631
Total current assets	63,827	962	706,606	—	771,395	224	—	771,619
Property and equipment, net	65,018	5,984	454,623	—	525,625	—	—	525,625
Goodwill	7,328	—	769,825	—	777,153	—	—	777,153
Intangible assets, net	1,101	28	299,306	—	300,435	—	—	300,435
Investment in subsidiaries	846,826	—	—	(846,826)	—	187,289	(187,289)	—
Intercompany balances	653,504	(31,016)	(791,213)	—	(168,725)	168,725	—	—
Other long-term assets	5,059	—	43,465	—	48,524	—	—	48,524
Total assets	$ 1,642,663	$ (24,042)	$ 1,482,612	$ (846,826)	$ 2,254,407	$ 356,238	$ (187,289)	$ 2,423,356
Liabilities and shareholders' equity (deficit)								
Current liabilities:								
Current portion of long-term debt and revolving credit facility	$ 86,850	$ —	$ 226	$ —	$ 87,076	$ —	$ —	$ 87,076
Other current liabilities	51,558	3,018	344,397	—	398,973	49	—	399,022
Total current liabilities	138,408	3,018	344,623	—	486,049	49	—	486,098
Long-term debt, less current portion	1,273,214	—	—	—	1,273,214	(50)	—	1,273,164
Other long-term liabilities	41,519	248	193,849	—	235,616	—	—	235,616
Deferred income taxes	2,233	399	69,607	—	72,239	383	—	72,622
Total liabilities	1,455,374	3,665	608,079	—	2,067,118	382	—	2,067,500
Total shareholders' equity (deficit)	187,289	(27,707)	874,533	(846,826)	187,289	355,856	(187,289)	355,856
Total liabilities and shareholders' equity (deficit)	$ 1,642,663	$ (24,042)	$ 1,482,612	$ (846,826)	$ 2,254,407	$ 356,238	$ (187,289)	$ 2,423,356

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
For the Fiscal Year Ended June 30, 2014 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	EM LLC Consolidated	EDMC	Eliminations	EDMC Consolidated
Net revenues	$ —	$ 7,684	$ 2,265,052	$ —	$ 2,272,736	$ —	$ —	$ 2,272,736
Costs and expenses:								
Educational services	65,655	10,285	1,297,758	—	1,373,698	1	—	1,373,699
General and administrative	(61,141)	(751)	729,459	—	667,567	—	—	667,567
Depreciation and amortization	28,744	631	123,126	—	152,501	—	—	152,501
Long-lived asset impairments	—	—	568,216		568,216			568,216
Total costs and expenses	33,258	10,165	2,718,559	—	2,761,982	1	—	2,761,983
Loss before interest and income taxes	(33,258)	(2,481)	(453,507)	—	(489,246)	(1)	—	(489,247)
Interest expense (income), net	128,650	—	(609)	—	128,041	(8)	—	128,033
Deficit in loss of subsidiaries	(489,781)	—	—	489,781	—	(663,921)	663,921	—
Loss before income taxes	(651,689)	(2,481)	(452,898)	489,781	(617,287)	(663,914)	663,921	(617,280)
Income tax expense	12,232	187	34,215	—	46,634	3	—	46,637
Net loss	$ (663,921)	$ (2,668)	$ (487,113)	$ 489,781	$ (663,921)	$ (663,917)	$ 663,921	$ (663,917)
Net change in unrecognized loss on interest rate swaps, net of tax	$ 6,099	$ —	$ —	$ —	$ 6,099	$ 6,099	$ (6,099)	$ 6,099
Foreign currency translation loss	(670)	—	(670)	670	(670)	(670)	670	(670)
Other comprehensive income	5,429	—	(670)	670	5,429	5,429	(5,429)	5,429
Comprehensive loss	$ (658,492)	$ (2,668)	$ (487,783)	$ 490,451	$ (658,492)	$ (658,488)	$ 658,492	$ (658,488)

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
For the Fiscal Year Ended June 30, 2013 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	EM LLC Consolidated	EDMC	Eliminations	EDMC Consolidated
Net revenues	$ —	$ 8,392	$ 2,490,207	$ —	$ 2,498,599	$ —	$ —	$ 2,498,599
Costs and expenses:								
Educational services	116,094	9,287	1,321,716	—	1,447,097	—	—	1,447,097
General and administrative	(101,570)	(545)	791,258	—	689,143	—	—	689,143
Depreciation and amortization	32,552	605	131,555	—	164,712	—	—	164,712
Long-lived asset impairments	—	—	300,104	—	300,104	—	—	300,104
Total costs and expenses	47,076	9,347	2,544,633	—	2,601,056	—	—	2,601,056
Loss before interest, loss on debt refinancing and income taxes	(47,076)	(955)	(54,426)	—	(102,457)	—	—	(102,457)
Interest expense (income), net	122,297	—	2,387	—	124,684	(21)	—	124,663
Loss on debt refinancing	5,232	—	—	—	5,232	—	—	5,232
Deficit in loss of subsidiaries	(61,469)	—	—	61,469	—	(244,020)	244,020	—
Loss before income taxes	(236,074)	(955)	(56,813)	61,469	(232,373)	(243,999)	244,020	(232,352)
Income tax expense	7,946	43	3,658	—	11,647	391	—	12,038
Net loss	(244,020)	(998)	(60,471)	61,469	(244,020)	(244,390)	244,020	(244,390)
Net change in unrecognized loss on interest rate swaps, net of tax	$ 4,923	$ —	$ —	$ —	$ 4,923	$ 4,923	$ (4,923)	$ 4,923
Foreign currency translation loss	(527)	—	(527)	527	(527)	(527)	527	(527)
Other comprehensive loss	4,396	—	(527)	527	4,396	4,396	(4,396)	4,396
Comprehensive loss	$ (239,624)	$ (998)	$ (60,998)	$ 61,996	$ (239,624)	$ (239,994)	$ 239,624	$ (239,994)

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Fiscal Year Ended June 30, 2012 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	EM LLC Consolidated	EDMC	Eliminations	EDMC Consolidated
Net revenues	$ —	$ 9,000	$ 2,751,967	$ —	$ 2,760,967	$ —	$ —	$ 2,760,967
Costs and expenses:								
Educational services	93,322	10,554	1,398,480	—	1,502,356	—	—	1,502,356
General and administrative	(82,634)	(352)	845,573	—	762,587	276	—	762,863
Depreciation and amortization	26,637	500	131,526	—	158,663	—	—	158,663
Long-lived asset impairments	—	—	1,662,288		1,662,288			1,662,288
Total costs and expenses	37,325	10,702	4,037,867	—	4,085,894	276	—	4,086,170
Loss before interest, loss on debt refinancing and income taxes	(37,325)	(1,702)	(1,285,900)	—	(1,324,927)	(276)	—	(1,325,203)
Interest expense (income), net	107,772	—	2,565	—	110,337	(7)	—	110,330
Loss on debt refinancing	9,474	—	—	—	9,474	—	—	9,474
Deficit in loss of subsidiaries	(1,280,207)	—	—	1,280,207	—	(1,433,398)	1,433,398	—
Loss before income taxes	(1,434,778)	(1,702)	(1,288,465)	1,280,207	(1,444,738)	(1,433,667)	1,433,398	(1,445,007)
Income tax benefit	(1,380)	(15)	(9,945)	—	(11,340)	(97)	—	(11,437)
Net loss	$ (1,433,398)	$ (1,687)	$ (1,278,520)	$ 1,280,207	$ (1,433,398)	$ (1,433,570)	$ 1,433,398	$ (1,433,570)
Net change in unrecognized loss on interest rate swaps, net of tax	$ (5,189)	$ —	$ —	$ —	$ (5,189)	$ (5,189)	$ 5,189	$ (5,189)
Foreign currency translation gain	(658)	—	(658)	658	(658)	(658)	658	(658)
Other comprehensive loss	(5,847)	—	(658)	658	(5,847)	(5,847)	5,847	(5,847)
Comprehensive loss	$ (1,439,245)	$ (1,687)	$ (1,279,178)	$ 1,280,865	$ (1,439,245)	$ (1,439,417)	$ 1,439,245	$ (1,439,417)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	EM LLC Consolidated	EDMC	EDMC Consolidated
Net cash flows provided by (used in) operations	$ (105,944)	$ (2,505)	$ 179,091	$ 70,642	$ 4	$ 70,646
Cash flows from investing activities:						
Expenditures for long-lived assets	(11,490)	(997)	(61,273)	(73,760)	—	(73,760)
Proceeds from sale of fixed assets	—	—	9,565	9,565	—	9,565
Other investing activities	—	—	(2,457)	(2,457)	—	(2,457)
Net cash flows used in investing activities	(11,490)	(997)	(54,165)	(66,652)	—	(66,652)
Cash flows from financing activities:						
Net repayments of debt and other	133,065	—	(226)	132,839	—	132,839
Share-based payment activities	—	—	—	—	3,113	3,113
Intercompany transactions	(19,534)	3,446	(31,258)	(47,346)	47,346	—
Net cash flows provided by (used in) financing activities	113,531	3,446	(31,484)	85,493	50,459	135,952
Effect of exchange rate changes on cash and cash equivalents	—	—	(74)	(74)	—	(74)
Net change in cash and cash equivalents	(3,903)	(56)	93,368	89,409	50,463	139,872
Beginning cash and cash equivalents	(10,777)	139	141,110	130,472	223	130,695
Ending cash and cash equivalents	$ (14,680)	$ 83	$ 234,478	$ 219,881	$ 50,686	$ 270,567

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	EM LLC Consolidated	EDMC	EDMC Consolidated
Net cash flows provided by (used in) operations	$ (168,316)	$ (5,632)	$ 365,231	$ 191,283	$ 24	$ 191,307
Cash flows from investing activities						
Expenditures for long-lived assets	(10,297)	(947)	(71,997)	(83,241)	—	(83,241)
Proceeds from sale of fixed assets	—	—	65,065	65,065	—	65,065
Other investing activities	(858)	—	(6,778)	(7,636)	—	(7,636)
Net cash flows used in investing activities	(11,155)	(947)	(13,710)	(25,812)	—	(25,812)
Cash flows from financing activities						
Net repayments of debt and other	(225,406)	—	(234)	(225,640)	3	(225,637)
Intercompany transactions	420,349	6,620	(423,966)	3,003	(3,003)	—
Net cash flows provided by (used in) financing activities	194,943	6,620	(424,200)	(222,637)	(3,000)	(225,637)
Effect of exchange rate changes on cash and cash equivalents	—	—	(171)	(171)	—	(171)
Net change in cash and cash equivalents	15,472	41	(72,850)	(57,337)	(2,976)	(60,313)
Beginning cash and cash equivalents	(26,249)	98	213,960	187,809	3,199	191,008
Ending cash and cash equivalents	$ (10,777)	$ 139	$ 141,110	$ 130,472	$ 223	$ 130,695

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012 (In thousands)

	EM LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	EM LLC Consolidated	EDMC	EDMC Consolidated
Net cash flows provided by (used in) operations	$ (35,071)	$ 4,015	$ 17,140	$ (13,916)	$ 3,066	$ (10,850)
Cash flows from investing activities						
Expenditures for long-lived assets	(10,373)	(1,127)	(82,046)	(93,546)	—	(93,546)
Other investing activities	(375)	—	(14,932)	(15,307)	—	(15,307)
Net cash flows used in investing activities	(10,748)	(1,127)	(96,978)	(108,853)	—	(108,853)
Cash flows from financing activities						
Net repayments of debt and other	9,610	—	(263)	9,347	—	9,347
Common stock repurchased and stock option exercises	—	—	—	—	(101,455)	(101,455)
Intercompany transactions	26,776	(3,060)	(75,171)	(51,455)	51,455	—
Net cash flows provided by (used in) financing activities	36,386	(3,060)	(75,434)	(42,108)	(50,000)	(92,108)
Effect of exchange rate changes on cash and cash equivalents	—	—	(405)	(405)	—	(405)
Net change in cash and cash equivalents	(9,433)	(172)	(155,677)	(165,282)	(46,934)	(212,216)
Beginning cash and cash equivalents	(16,816)	270	369,637	353,091	50,133	403,224
Ending cash and cash equivalents	$ (26,249)	$ 98	$ 213,960	$ 187,809	$ 3,199	$ 191,008

17. SEGMENT REPORTING

The Company's principal business is providing post-secondary education. The Company manages its operations through four reportable segments, which are The Art Institutes, Argosy University, Brown Mackie Colleges and South University. A summary of each reportable segment is below.

- *The Art Institutes.* The Art Institutes focus on applied arts in creative professions such as graphic design, media arts and animation, culinary arts, photography, digital filmmaking and video production, interior design, audio production, fashion design, game art and design, baking and pastry, and fashion marketing. The Art Institutes offer Associate's, Bachelor's and Master's degree programs, as well as selective non-degree diploma programs. Students pursue their degrees through local campuses, fully-online programs through The Art Institute of Pittsburgh, Online Division and blended formats, which combine campus-based and online education. As of June 30, 2014, there were 51 Art Institutes campuses in 25 U.S. states and in Canada. As of October 2013, students enrolled at The Art Institutes represented approximately 53% of the Company's total enrollments.
- *Argosy University.* Argosy University offers academic programs in psychology and behavioral sciences, business, legal, education and health sciences disciplines. Argosy University offers Doctoral, Master's and undergraduate degrees through local campuses, fully-online programs and blended formats. Argosy University's academic programs largely focus on graduate students seeking advanced credentials as a prerequisite to initial licensing, career advancement and/or structured pay increases. As of June 30, 2014, there were 20 Argosy University schools in 13 U.S. states. As of October 2013, students enrolled at Argosy University represented approximately 19% of the Company's total enrollments. This segment includes Western State College of Law, which offers Juris Doctor degrees, and the Ventura Group, which provides courses and materials for post-graduate licensure examinations in the behavioral sciences fields and continuing education courses for K-12 educators.
- *Brown Mackie Colleges.* Brown Mackie Colleges offer flexible Associate's and non-degree diploma programs that enable students to develop skills for entry-level positions in high demand vocational specialties and Bachelor's degree programs that assist students to advance within the workplace. Brown Mackie Colleges offer programs in fields such as medical assisting, business, criminal justice, occupational therapy assistant, healthcare administration, and veterinary technology. As of June 30, 2014, there were 28 Brown Mackie College campuses in 15 U.S. states. As of October 2013, students enrolled at Brown Mackie Colleges represented approximately 13% of the Company's total enrollments.
- *South University.* South University offers academic programs in health profession and business disciplines, including business administration, health sciences, nursing, criminal justice, psychology, information technology, and healthcare management. South University offers Doctoral, Master's, Bachelor's and Associate's degrees through local campuses, fully-online programs and blended formats. As of June 30, 2014, there were 11 South University campuses in nine U.S. states. As of October 2013, students enrolled at South University represented approximately 15% of the Company's total enrollments.

During fiscal 2013, the Company created "The Center", which provides support services to its four education systems through the centralization and automation of certain non-student facing activities, including financial aid packaging, the qualification and transfer of prospective students to school admissions teams, student billing services, certain registrar services, support call center services for students and employees, and remote student advising services. Effective July 1, 2013, The Center allocates costs to each reportable segment based primarily on the level of transaction volume. In the prior fiscal year, similar costs were allocated to each reportable segment based primarily on net revenues. To ensure comparability among periods, EBITDA excluding certain expenses for each segment has been recast to report results for the fiscal years ended June 30, 2013 and 2012 as if The Center existed in those periods and allocated its costs in a manner consistent with the fiscal 2014 methodology. The creation of The Center and changes in the allocation methodology had no impact on previously reported EBITDA excluding certain expenses for total EDMC.

EBITDA excluding certain expenses, the measure used by the chief operating decision maker to evaluate segment performance and allocate resources, is defined as net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization and certain other expenses presented below. EBITDA excluding certain expenses is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA excluding certain expenses is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Management believes EBITDA excluding certain expenses is helpful in highlighting trends because EBITDA excluding certain expenses excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, the Company's presentation of EBITDA excluding certain expenses may not be comparable to similarly titled measures of other companies. Adjustments to reconcile segment results to consolidated results are included under the caption "Corporate and other," which primarily includes unallocated corporate activity. As well as other summary financial information by reportable segment, a reconciliation of EBITDA excluding certain expenses by reportable segment to consolidated income (loss) before income taxes is presented below (in thousands):

	For the Fiscal Year Ended June 30,		
	2014	2013	2012
Net revenues:			
The Art Institutes	$ 1,386,729	$ 1,543,385	$ 1,738,542
Argosy University	321,118	356,544	397,458
Brown Mackie Colleges	265,606	298,175	314,801
South University	299,283	300,495	310,166
Total EDMC	$ 2,272,736	$ 2,498,599	$ 2,760,967
EBITDA excluding certain expenses:			
The Art Institutes	$ 268,530	$ 352,036	$ 480,518
Argosy University	29,880	39,068	57,346
Brown Mackie Colleges	22,007	32,154	55,755
South University	41,260	46,613	10,560
Corporate and other	(85,538)	(89,654)	(94,298)
Total EDMC	276,139	380,217	509,881
Reconciliation to loss before income taxes:			
Long-lived asset impairments	568,216	300,104	1,662,288
Restructuring and other	26,952	13,920	14,133
Lease abandonment charge	6,367	—	—
Settlement-related costs	7,859	—	—
Loss on sale-leaseback transactions	3,491	3,938	—
Loss on debt refinancing	—	5,232	9,474
Depreciation and amortization	152,501	164,712	158,663
Net interest expense	128,033	124,663	110,330
Loss before income taxes	$ (617,280)	$ (232,352)	$ (1,445,007)

Expenditures for long-lived assets:			
The Art Institutes	$ 30,829	$ 39,778	$ 42,970
Argosy University	5,712	6,719	6,573
Brown Mackie Colleges	2,847	9,049	11,906
South University	4,960	7,648	9,056
Corporate and other	29,412	20,047	23,041
Total EDMC	$ 73,760	$ 83,241	$ 93,546

	As of June 30,	
Assets: *	**2014**	**2013**
The Art Institutes	$ 953,003	$ 1,521,597
Argosy University	297,320	274,151
Brown Mackie Colleges	210,154	231,225
South University	229,336	233,993
Corporate and other	187,223	162,390
Total EDMC	$ 1,877,036	$ 2,423,356

* Excludes inter-company activity.

18. SUBSEQUENT EVENTS

Debt Restructuring

Refer to Note 2, "Summary of Significant Accounting Policies," under "Basis of Presentation" for a description of the debt restructuring that occurred in September 2014. The Company will account for this transaction as a troubled debt restructuring and record cancellation of debt income in fiscal 2015. Refer to Note 9, "Derivative Instruments," for details regarding the termination of the Company's interest rate swaps in connection with the debt restructuring.

Sale-Leaseback Transaction

In August 2014, the Company completed a sale-leaseback of one of its buildings with an unrelated third party for net proceeds totaling $1.2 million. At the time of closing, the Company entered into an agreement to lease the facility for one year. The Company recorded a net loss from the sale of the building of approximately $7 million in the quarter ended September 30, 2014.

SCHEDULE II

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Period	Additions Charged to Expenses	Deductions/ Other	Balance at End of Period
Year ended June 30, 2012				
Uncollectible accounts receivable	$ 194,264	$ 163,926	$ 113,001	$ 245,189
Estimated future loan losses	5,093	—	—	5,093
Deferred tax asset valuation allowance	21,667	3,600	—	25,267
Year ended June 30, 2013				
Uncollectible accounts receivable	$ 245,189	$ 171,306	$ 213,884	$ 202,611
Estimated future loan losses	5,093	544	—	5,637
Deferred tax asset valuation allowance	25,267	(442)	—	24,825
Year ended June 30, 2014				
Uncollectible accounts receivable	$ 202,611	$ 129,261	$ 156,354	$ 175,518
Estimated future loan losses	5,637	12,685	—	18,322
Deferred tax asset valuation allowance	24,825	127,438	—	152,263

SUPPLEMENTAL QUARTERLY INFORMATION (Unaudited)

The Company's quarterly net revenues and income fluctuate primarily as a result of the pattern of student enrollments. The seasonality of the Company's business has decreased over the last several years due to an increased percentage of students enrolling in online programs, which generally experience less seasonal fluctuations than campus-based programs. The Company's first fiscal quarter is typically its lowest revenue recognition quarter due to student vacations.

The following table sets forth the Company's quarterly results for fiscal years ended June 30, 2014, 2013 and 2012 (in thousands except per share data):

	Quarter Ended			
	September 30	December 31	March 31	June 30 (1)
Fiscal 2014: (1)				
Revenue	$ 580,380	$ 593,673	$ 595,202	$ 503,481
Loss before income taxes	$ (19,948)	$ (2,383)	$ (499,926)	$ (95,023)
Net (loss) income	$ (9,514)	$ 1,089	$ (467,646)	$ (187,846)
Diluted EPS	$ (0.08)	$ 0.01	$ (3.71)	$ (0.69)
Fiscal 2013: ((2)				
Revenue	$ 609,565	$ 654,895	$ 638,903	$ 595,236
(Loss) income before income taxes	$ (21,818)	$ 53,064	$ (254,111)	$ (9,487)
Net (loss) income	$ (13,091)	$ 31,144	$ (260,408)	$ (2,035)
Diluted EPS	$ (0.11)	$ 0.25	$ (2.09)	$ (0.02)
Fiscal 2012: (2)				
Revenue	$ 682,095	$ 737,188	$ 702,499	$ 639,185
Income (loss) before income taxes	$ 44,115	$ 103,291	$ (417,844)	$ (1,174,569)
Net (loss) income	$ 26,954	$ 63,127	$ (394,926)	$ (1,128,725)
Diluted EPS	$ 0.21	$ 0.49	$ (2.69)	$ (9.51)

(1) Refer to Note 2, "Summary of Significant Accounting Policies," for details with respect to a correction in the Company's policy regarding the recognition of incremental revenue recorded when students withdraw. This correction had the effect of reducing net revenues by $36.7 million and bad debt expense by $33.2 million, which resulted in an increase to the loss before taxes of $3.5 million in the fiscal quarter ended June 30, 2014. Previously reported amounts have not been corrected as the impact was deemed to be immaterial.

(2) The goodwill impairment charges in fiscal 2012 and fiscal 2013 have been revised as further described in Item 8, "Financial Statements and Supplementary Data," Note 5, "Goodwill and Intangible Assets" under "Correction of Immaterial Errors," which has resulted in (loss) income before income taxes, net (loss) income and diluted EPS being revised as compared to the originally reported amounts.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company, under the supervision and participation of its management, which include the Company's president and chief executive officer and chief financial officer, evaluated the effectiveness of its "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Securities Act of 1934, as amended (the "Exchange Act"). Effective controls are designed to ensure that information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports are accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. This evaluation was conducted as of the end of the period covered by this annual report on Form 10-K. Based on that evaluation, the Company's president and chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are not effective because of the material weakness in internal control over financial reporting described below. Notwithstanding the material weakness described below, management has concluded that the Company's consolidated financial statements for the periods covered by and included in this annual report on Form 10-K are fairly stated in all material respects in accordance with accounting principles generally accepted in the United States for each of the periods presented herein.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed 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.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) in Internal Control-Integrated Framework. In connection with management's assessment of its internal control over financial reporting, the Company has identified a control deficiency that constitutes a material weakness in the internal control over financial reporting as of June 30, 2014, as described below.

Management has concluded that there is a material weakness in internal control over financial reporting, as the Company did not maintain effective controls to ensure the proper selection of its revenue recognition policy. Members of management with the requisite level of accounting knowledge, experience and training commensurate with financial reporting requirements did not analyze certain accounting issues at the level of detail required to ensure the proper application of GAAP in certain circumstances. Specifically, the process for analyzing the collectability criterion for revenue recognition was not designed to assess collectability, on a student-by-student basis, throughout the period revenue was recognized by the Company's institutions. Although this control deficiency did not result in the restatement of the Company's consolidated financial statements for the years ended June 30, 2013 or 2012, the deficiency in the controls' design could have had a material impact on the Company's financial statements. Accordingly, management has determined that the control deficiency over revenue recognition constitutes a material weakness.

The effectiveness of the Company’s internal control over financial reporting as of June 30, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report set forth in the Report of Independent Registered Public Accounting Firm in Part II, Item 8 of this annual report on Form 10-K.

Management's Remediation Plan

Management is committed to remediating the control deficiency that constitutes the material weakness by implementing changes to its internal control over financial reporting. Management is responsible for implementing changes and improvements in the internal control over financial reporting and for remediating the control deficiency that gave rise to the material weakness.

Management plans to achieve this primarily through instituting additional controls within the revenue recognition process. Management also plans to undertake additional review processes to ensure the related significant accounting policies are implemented and applied properly on a consistent basis throughout the Company. Management believes these measures will remediate the control deficiency. However, to date, management has not completed the corrective actions that it believes are necessary. As management continues to evaluate and work to remediate the control deficiency that gave rise to the material weakness, it may determine to take additional measures to address the control deficiency.

Changes in Internal Controls Over Financial Reporting.

As previously disclosed in the March 31, 2014 Form 10-Q, the Company identified errors in prior periods in the calculation of deferred taxes that is required in connection with the hypothetical purchase price allocation performed in the step two portion of the goodwill impairment test during the third quarter of fiscal 2014. The errors in calculating the deferred taxes affected the magnitude of the goodwill impairment charges previously recorded. The impact of these errors was not material to any prior period; however, the aggregate pre-tax amount of the prior period errors would have been material to the Company's consolidated statements of operations for the three and nine months ended March 31, 2014. Therefore, the lack of internal controls indicated to management that deficiencies existed in internal controls over financial reporting that potentially would not prevent or detect a material misstatement to the consolidated financial statements. The Company remediated this material weakness during the quarter ended June 30, 2014.

There were no other changes that occurred during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

EDMC's Board of Directors

EDMC's Board of Directors currently consists of ten members. In connection with our initial public offering in June 2006, certain of our shareholders, including investment funds associated with Providence Equity Partners, Goldman Sachs Capital Partners and Leeds Equity Partners who led the Transaction, entered into a shareholders agreement, which we refer to as our "Shareholders Agreement." The parties to the Shareholders Agreement have agreed to vote their shares to elect two members to our Board of Directors designated by each of certain private equity funds affiliated with Providence Equity Partners (the "PEP Parties") and certain private equity funds affiliated with Goldman Sachs Capital Partners (the "GSCP Parties"), and one member of our Board of Directors designated by certain private equity funds affiliated with Leeds Equity Partners. The respective rights of PEP Parties and the GSCP Parties to appoint directors will be reduced to the right to designate one director if such Sponsor's beneficial stock ownership drops below 10% of the outstanding shares of our common stock, and the right of each Sponsor to designate directors will be eliminated if that Sponsor's beneficial stock ownership drops below 2% of the outstanding shares of our common stock. Adrian M. Jones is currently the only designee of the GSCP Parties on the Board. Accordingly, the GSCP Parties, which collectively own more than 10% of the outstanding shares of our common stock, have the right to appoint an additional designee to the Board pursuant to the terms of the Shareholders Agreement. William R. Johnson has announced his intention to not stand for reelection to the Board of Directors at the 2014 annual shareholders meeting

Information about each of our directors is set forth below, including the directors' principal occupation and business experience, other directorships, age as of October 1, 2014, and tenure on the EDMC's Board.

Name and Age	Director Since	Business Experience, Other Directorships and Qualifications
Edward H. West 48	October 2012	Edward H. West became our Chief Executive Officer in August 2012. Mr. West previously served as our President and Chief Financial Officer from December 2008 to August 2012 and as Executive Vice President and Chief Financial Officer from the consummation of the Transaction in June 2006 until December 2008. Mr. West is the former Chairman and Chief Executive Officer of ICG Commerce, a position he held from 2002 until 2006. Prior to joining ICG Commerce, Mr. West served as President and Chief Operating Officer from 2001 to 2002 and Chief Financial Officer from 2000 to 2001 of Internet Capital Group, Inc. Prior to joining Internet Capital Group, Inc., Mr. West worked for Delta Air Lines, Inc. from 1994 to 2000, last serving as Executive Vice President and Chief Financial Officer. Mr. West brings to the Board his extensive expertise in financial matters and in-depth knowledge and understanding of the Company's operations.
Samuel C. Cowley 54	October 2009	Samuel C. Cowley has served as General Counsel, Vice President, Business Development and Secretary of Prestige Brands Holdings, Inc., a seller of over-the-counter healthcare products, since February 2012. Prior to joining Prestige Brands, Mr. Cowley worked as a corporate attorney and investor. From May 2008 to February 2011, Mr. Cowley served as Executive Vice President, Business Development, General Counsel and Secretary of Matrixx Initiatives, Inc. Mr. Cowley was a director of Matrixx Initiatives from July 2005 to February 2011. Prior to joining Matrixx Initiatives, Mr. Cowley served as Executive Vice President and General Counsel for Swift Transportation Co., Inc. and was a member of Swift Transportation's board of directors from March 2005 to May 2007. Mr. Cowley previously was a partner with the law firm of Snell & Wilmer L.L.P. Mr. Cowley's career as an attorney in private practice as well as a senior executive and director of companies provides the Board with a valuable mix of legal expertise and operational management skills.

Name and Age	Director Since	Business Experience, Other Directorships and Qualifications
William R. Johnson 65	November 2013	William R. Johnson served as Chief Executive Officer of H. J. Heinz Company from 1998-2013 and as Chairman, President and Chief Executive Officer of Heinz from 2000 to 2013. He also serves as a director of Emerson Electric Company and United Parcel Service, Inc. Mr. Johnson joined Heinz in 1982 and held a number of leadership positions, including President and Chief Operating Officer, Senior Vice President, General Manager-New Businesses, and Vice President-Marketing for Ketchup, Foodservice, and Sauces. During his tenure, Mr. Johnson also managed diverse international businesses in the Asia/Pacific region, including Australia, New Zealand, China, Thailand, and South Korea. In 2006, he received the inaugural Global Visionary Award from Helen Keller International for Heinz's micronutrient campaign, which is designed to combat iron deficiency anemia. He also received the Marco Polo Award, considered to be the highest honor bestowed by the Chinese government on foreign business leaders, for Heinz's support of the development of the Chinese food industry. Mr. Johnson brings to the Board a unique and well-developed understanding of methods to drive shareholder value. He contributes to the Board his strategic vision for growth, business strategy and strategic planning skills, global business skills, marketing acumen, and a consumer focus. In addition, Mr. Johnson's experience on other publicly-traded company boards and exposure to different industries provide the Board with insights regarding governance, finance, compensation, and other key matters.
Adrian M. Jones 50	June 2006	Adrian M. Jones joined Goldman, Sachs & Co. in 1994 and has been a Managing Director within the Principal Investment Area of its Merchant Banking Division since 2002, where he co-heads the American Equity business and is also a member of the Corporate Investment Committee of the Merchant Banking Division of Goldman, Sachs & Co. He serves on the board of directors of Biomet, Inc., HealthMarkets, Inc., Hearthside, Inc. and CTI Foods Holding Co LLC. Mr. Jones, who is a designee of Goldman Sachs Capital Partners, provides the Board with a broad background addressing capital structure issues as both a private investor and as a director of publicly traded and privately-held companies.
Jeffrey T. Leeds 58	March 2007	Jeffrey T. Leeds is the co-founder of Leeds Equity Partners, LLC, a leading New York-based private equity firm focusing on the education, information services, and training industries. Prior to co-founding Leeds Equity Partners, Mr. Leeds spent seven years specializing in mergers and acquisitions and corporate finance at Lazard Freres & Co. Prior to joining Lazard Freres & Co., Mr. Leeds served as a law clerk to the Hon. William J. Brennan, Jr. of the Supreme Court of the United States. Mr. Leeds also worked in the corporate department of the law firm of Cravath, Swaine & Moore in New York. Mr. Leeds currently serves as a director of BarBri, Inc., Evanta Ventures, Knowledge Factor, INTO Univerity Partnerships, and RealPage, Inc., a publicly traded provider of on-demand software solutions for the rental housing industry. Mr. Leeds also serves as a member of the Board of Directors of the Association of Private Sector Colleges and Universities. He has previously served as a director of Argosy University, Datamark, Inc., Miller Heiman, Instituto de Banca y Comercio and Ross University, among others. Mr. Leeds is a member of the Council on Foreign Relations and a member of the Board of Visitors at The Colin L. Powell School for Civic and Global Leadership at CCNY. Mr. Leeds graduated *summa cum laude* from Yale University with a B.A. degree in History and his J.D., *magna cum laude*, from Harvard Law School. He was also a Marshall Scholar at the University of Oxford. Mr. Leeds, who is a designee of Leeds Equity Partners, brings to the Board his vast experience in the education and related industries as well as his strong legal, financial and business acumen.

Name and Age	Director Since	Business Experience, Other Directorships and Qualifications
John R. McKernan, Jr. 66	June 1999	John R. McKernan, Jr. is currently President of the U.S. Chamber of Commerce Foundation, having served as Chairman of our Board of Directors from December 2008 to August 2012. Previously, he served as Executive Chairman from February 2007 to December 2008, as our Chief Executive Officer from September 2003 to February 2007, as our President from March 2003 to September 2003, and as Vice Chairman from the time that he joined the Company in June 1999 until March 2003. Mr. McKernan is also a director of BorgWarner Inc., a publicly traded producer of engineered components and vehicle powertrain system applications, and Houghton Mifflin Harcourt, a publicly-traded global learning company, and served as Governor of the State of Maine from 1987 to 1995. Mr. McKernan brings to the Board his extensive knowledge of the Company's business, structure, history and culture along with his understanding of the legislative process based on his experience in government.
Leo F. Mullin 71	June 2006	Leo F. Mullin retired as Chief Executive Officer of Delta Air Lines, Inc. in December 2003 and Chairman in April 2004, after having served as its Chief Executive Officer since 1997 and Chairman since 1999. Mr. Mullin currently serves in a consultative capacity as a Senior Advisor, on a part-time basis, to Goldman Sachs Capital Partners. Mr. Mullin was Vice Chairman of Unicom Corporation and its principal subsidiary, Commonwealth Edison Company, from 1995 to 1997. He was an executive of First Chicago Corporation from 1981 to 1995, serving as that company's President and Chief Operating Officer from 1993 to 1995, and as Chairman and Chief Executive Officer of American National Bank, a subsidiary of First Chicago Corporation, from 1991 to 1993. Mr. Mullin serves as a director of Johnson & Johnson, a publicly traded manufacturer of pharmaceutical and healthcare products, and ACE Limited, a publicly traded provider of insurance and reinsurance services. Mr. Mullin's experience as Chairman and CEO of one of the nation's largest airlines and his long and distinguished career in the banking industry make him a skilled advisor on operational and financial matters.
Brian A. Napack 52	November 2012	Brian A. Napack is a senior advisor of Providence Equity Partners LLC. Prior to joining Providence in 2012, Mr. Napack served as President of Macmillan, the global publisher, in the U.S. from 2006 to 2011. Prior to his role at Macmillan, Mr. Napack was a partner at L.E.K. Consulting, a global management consulting firm, serving as co-head of its Media and Entertainment practices and leading its Publishing and Education practices. Mr. Napack also founded and served as CEO of ThinkBox, an educational software company. Previously, he worked for The Walt Disney Company where he founded Disney Educational Publishing and was a co-founder of Disney Interactive. He has also held senior roles at Simon & Schuster, the publishing company, and at A.T. Kearney, a leading management consulting company. Mr. Napack currently serves on the board of Blackboard Inc., Ascend Learning, HotChalk, Inc., Isolation Network, Inc., and Zero-to-Three, a national advocacy organization dedicated to improving the lives of infants and toddlers. Mr. Napack brings to the Board his broad-based management experience and knowledge of the education and related industries.

Name and Age	Director Since	Business Experience, Other Directorships and Qualifications
Paul J. Salem 50	June 2006	Paul J. Salem is a Senior Managing Director and a co-founder of Providence Equity Partners. Prior to joining Providence Equity Partners in 1992, Mr. Salem worked for Morgan Stanley & Co. in corporate finance and mergers and acquisitions. Prior to that time, Mr. Salem spent four years with Prudential Investment Corporation, an affiliate of Prudential Insurance, where his responsibilities included leveraged buyout transactions and helping to establish Prudential's European investment office. Mr. Salem is also a director of N.E.W. Asurion Corp., a provider of technology protection services, and Gruppo TorreSur, a provider of infrastructure sharing services to the telecommunications industry, and previously served as a director of PanAmSat Holding Corporation. Mr. Salem, who is a designee of Providence Equity Partners, provides the Board of Directors with a broad-based background in analyzing business operations, models, strategic plans and financial statements.
Peter O. Wilde 45	June 2006	Peter O. Wilde is a Managing Director of Providence Equity Partners. Prior to joining Providence Equity Partners in 2002, Mr. Wilde was a General Partner at BCI Partners, where he began his career in private equity investing in 1992. Mr. Wilde is also a director of N.E.W. Asurion Corp., a provider of technology protection services, Ascend Learning, which owns Assessment Technologies Institute and Jones & Bartlett Publishers, Study Group Pty Limited, Blackboard Inc., and Galileo Global Education. Mr. Wilde, who is a designee of Providence Equity Partners, brings to the Board of Directors his extensive understanding of private equity and financial matters and experience as an investor in and director of several other companies in the education industry.

Involvement in Certain Legal Proceedings

Leo F. Mullin, a director, served as Chief Executive Officer of Delta Air Lines, Inc. from 1997 through December 2003 and as Chairman of Delta Air Lines, Inc. from 1999 through April 2004. Delta Air Lines, Inc. filed a petition under federal bankruptcy laws in September 2005.

Executive Officers

The names, ages and positions of our executive officers as of October 1, 2014, are as follows:

Name	Age	Position
Edward H. West(1)	48	President and Chief Executive Officer
Mick J. Beekhuizen	38	Executive Vice President and Chief Financial Officer
Donna A. Bucella	58	Senior Vice President - Risk and Compliance and Chief Compliance Officer
Carol A. DiBattiste	62	Executive Vice President and Chief Legal, Privacy, Security, and Administrative Officer
Danny D. Finuf	54	President, Brown Mackie Colleges
James C. Hobby	64	Executive Vice President, Operational Services and Support
J. Devitt Kramer	50	Senior Vice President, General Counsel and Secretary
Mark S. Miko	41	Senior Vice President and Chief Information Officer
Timothy Moscato(2)	45	Chief Operating Officer, The Art Institutes
Mark E. Novad	49	Senior Vice President - Human Resources
John T. South, III	67	Senior Vice President, Chancellor, South University
Craig D. Swenson(3)	61	Chancellor, Argosy University

(1) Mr.West's business experience and job positions are described above under the heading "EDMC's Board of Directors."

(2) Mr. Moscato became an executive officer after October 1, 2014, the date of the table.

(3) Mr. Swenson announced his intent to retire effective November 8, 2014 after October 1, 2014, the date of the table.

Mick J. Beekhuizen has served as the Company's Chief Financial Officer since April 2013. Prior to becoming Chief Financial Officer, he had served as a Director of the Company since 2009. He had been with Goldman, Sachs & Co. since 2000 and had been a Managing director in the Merchant Banking division since 2010. Prior to joining the Merchant Banking division in New York in 2004, Mr. Beekhuizen worked in the Investment Banking Division at Goldman, Sachs & Co. in Frankfurt, Germany.

Donna A. Bucella was appointed as the Company’s new Senior Vice President, Risk and Compliance, and Chief Compliance Officer in May 2013. From 2010 to 2013, Ms. Bucella served as Assistant Commissioner of U.S. Customs and Border Protection, Office of Intelligence and Investigative Liaison. From 2008 to 2010, she was of counsel for Foley & Lardner LLP. Ms. Bucella worked at Perot Systems Government Services from 2007 to 2008, and Bank of America from 2006 to 2007. After September 11th, Ms. Bucella joined the Transportation Security Administration as the first Southeast Area Director and was responsible for the operations of 80 federalized airports. In 2003, Ms. Bucella was selected by the President and the Director of the Federal Bureau of Investigation to become the first Director of the Terrorist Screening Center which she created from inception and led it to full operational capacity as it exists today, serving in this role from 2003 to 2006. From 1999 to 2001, she was the United States Attorney for the Middle District of Florida, appointed by the President and confirmed by the Senate. In 2001 to 2002, Ms. Bucella was a partner at Steel, Hector and Davis, LLP. Previously, she served as Assistant United States Attorney for the Southern District of Florida, and Director of the Office of Legal Education for the Department of Justice. She has also served in the U.S. Army Reserves and retired in the Reserves at the rank of Colonel.

Carol A. DiBattiste was appointed Executive Vice President, Chief Legal, Privacy, Security, and Administrative Officer of the Company in May 2013. Ms. DiBattiste is responsible for oversight of the Company’s legal affairs, human resources, student financial services compliance, regulatory affairs compliance, and privacy and security functions. She joined the Company in March 2013 as its Chief Legal and Compliance Officer. Previously, Ms. DiBattiste was Executive Vice President, General Counsel and Chief Administrative Officer for Geeknet, Inc., a publicly traded e-commerce business where she also developed enterprise risk management and compliance programs, from 2011 to 2013. Ms. DiBattiste has served in executive privacy, security, compliance and legal roles at Reed Elsevier from 2008 to 2011, and ChoicePoint, Inc. from 2005 to 2008, where she also served as General Counsel and Chief Privacy Officer until ChoicePoint was acquired by Reed Elsevier. Previously, from 2001 to 2003, she was a partner in the international law firm of Holland & Knight LLP where her specialties included government relations, corporate diversity counseling, and civil and criminal litigation. Ms. DiBattiste also served as the Under Secretary of the United States Air Force, Department of Defense, as confirmed by the U.S. Senate, from 1999 to 2001, the Principal Deputy General Counsel for the U.S. Navy from 1993 to 1994, and the Deputy Administrator of the Transportation Security Administration, Department of Homeland Security from 2003 to 2005. In the Department of Justice, Ms. DiBattiste served as a federal prosecutor from 1991 to 1992, the Director of the Department of Justice’s Office of Legal Education from 1992 to 1993, the Director of the Executive Office for United States Attorneys from 1994 to 1997, and later as Deputy United States Attorney for the Southern District of Florida from 1997 to 1999. She served for twenty years in the United States Air Force on active duty in enlisted, officer, and JAG capacities, and retired in 1991.

Danny D. Finuf has served as President of Brown Mackie Colleges since April 2014 after previously serving in this position from July 2006 through April 2013. Mr. Finuf served as Executive Vice President - Education System Operations from May 2013 through March 2014 and Senior Vice President of Operations from July 2011 through May 2013. From July 2004 to July 2006, he served as Group Vice President for the Company. From September 2003 to July 2004, he served as Regional Vice President of the Central Region. From November 1995 to September 2003, he held the position of Campus President and Regional President for seven Brown Mackie College campuses. Prior to joining American Education Centers, which was acquired by Education Management Corporation in September 2003, from August 1990 to November 1995, Mr. Finuf was the Vice President of Administrative Services for Spartan College of Aeronautics in Tulsa, Oklahoma.

James C. Hobby was appointed Executive Vice President of Operational Services & Support in January 2014. In his role, Mr. Hobby is responsible for providing strategic direction to the Center, which provides support to the Company’s education systems. Prior to joining the Company, Mr. Hobby served as Executive Vice President - Global Operations at Sykes Enterprises from 2003 to 2012, a multinational business processing outsourcing company. He also served as Vice President of Services and Support Operations for Gateway Computers from 1999 to 2001, and Vice President - EMEA Customer Service Operations for American Express from 1996 to 1999, and held various operations positions of increasing responsibility at Federal Express.

J. Devitt Kramer was appointed Senior Vice President, General Counsel and Secretary in July 2006 after serving as Vice President, Senior Counsel and Assistant Secretary from May 2004 through June 2005 and Vice President, Corporate Compliance from July 2005 to June 2006. Prior to joining us, Mr. Kramer served as the Senior Vice President, General Counsel and Secretary of Printcafe Software, Inc. from January 2000 through February 2004, was an attorney with Benesch, Friedlander, Coplan & Aronoff in Cleveland, Ohio from 1994 through 1999 and an accountant with Ernst & Young LLP from 1986 through 1992.

Mark S. Miko has been our Senior Vice President and Chief Information Officer since July 2012. From November 2011 to July 2012, Mr. Miko served as Senior Vice President and IT Business Management Director for the PNC Financial Services

Group and from April 2005 to November 2011, Mr. Miko was the chief information officer for the Armstrong Group of Companies, a privately-held conglomerate comprised of cable, telephone, security, home technology, real estate and food services companies. Prior to joining Armstrong, Mr. Miko was a senior manager with Deloitte Consulting from 1995 to 2005.

Timothy P. Moscato was named the Chief Operating Officer for The Art Institutes system of schools in July 2014. Mr. Moscato served as a Group Vice President and Vice Chancellor of Operations for Argosy University's College of Creative Arts and Design from September 2012 to July 2014 and President of The Art Institute of Portland from September 2011 to September 2012. Prior to joining the Company, Mr. Moscato was employed by The University of Phoenix, serving as Vice President of Real Estate Strategy from October 2009 to September 2011 and Regional Vice President of the Northeast Region from October 2006 to October 2009.

Mark E. Novad has been our Senior Vice President - Human Resources since December 2011. Mr. Novad joined EDMC in 2008 when he became the Vice President of Human Resources for our corporate office in Pittsburgh. His role expanded to include oversight of the Human Resources function at OHE. Prior to joining EDMC, Mr. Novad was the Corporate Director of Human Resources at II-VI Incorporated, a publicly traded high-tech developer and manufacturer.

John T. South, III, joined us in July 2003 when we acquired South University, which was owned by Mr. South. Mr. South has served as Chancellor of South University since October 2001 and served on the Board of Trustees of Argosy University from February 2006 through December 2013, serving as Chairman from February 2006 until April 2010. Prior to our acquisition of South University, Mr. South was shareholder and CEO of various affiliated private colleges and had been Chief Executive Officer of South University since 1975. Mr. South also served as President of South University prior to being appointed Chancellor in October 2001. Mr. South currently is on the advisory board of Sun Trust Bank of Savannah.

Craig D. Swenson was named Chancellor of Argosy University in September 2007. Prior to assuming that role, Dr. Swenson was the Provost and Vice President of Academic Affairs at Western Governors University in Salt Lake City, UT from April 2006 to September 2007 and previously served for seven years as Provost and Senior VP for Academic Affairs for the University of Phoenix system where he was also Senior Regional Vice President and a Vice President and Campus Director. Dr. Swenson started his professional career in marketing, public relations and advertising and, prior to becoming a full-time academician, was Vice President and Marketing Director for First Interstate Bank. Dr. Swenson was elected to the board of the Council of Higher Education Accreditation in July 2009. He also serves as a member of the CHEA International Quality Group Advisory Board. Dr. Swenson is a member of the U.S. Army Education Committee and recently completed service as a member of the U.S. Secretary of Education's National Advisory Council on Institutional Quality and Integrity.

CORPORATE GOVERNANCE

Board Structure

Our Board of Directors currently consists of ten persons. The Board has determined that Samuel C. Cowley, Leo F. Mullin and Brian A. Napack are independent in accordance with the listing standards for companies with securities listed on NASDAQ.

Parties to the Shareholders Agreement collectively own more than 50% of the total voting power of our common stock, and we utilize certain "controlled company" exemptions under NASDAQ's corporate governance listing standards that free us from the obligation to comply with certain NASDAQ corporate governance requirements, including the requirements:

- that a majority of our Board of Directors consists of independent directors;
- that the compensation of executive officers be determined, or recommended to our Board of Directors for determination, either by (a) a majority of the independent directors or (b) a compensation committee comprised solely of independent directors; and
- that director nominees be selected, or recommended for our Board of Directors' selection, either by (a) a majority of the independent directors or (b) a nominations committee comprised solely of independent directors.

These exemptions do not modify the independence requirements for our Audit Committee, and our Audit Committee is composed solely of independent directors.

Meetings of the Board

In fiscal 2014, our Board met nine times. In addition to meetings of the Board, directors attended meetings of individual Board committees. In fiscal 2014, all of the directors attended at least 88.5% of the Board meetings and meetings of Board committees of which they were a member during the periods for which they served, with the exception of Mr. Wilde, who attended 83.3% of the applicable meetings, and Todd S. Nelson, who attended 66.7% of applicable meetings but did not stand for reelection in November 2013. In addition to Board and committee meetings, it is the Company's policy that directors are expected to attend the Annual Meeting.

Non-management members of the Board meet in executive sessions on a regular basis. Neither Mr. West nor any other member of management attends such meetings of non-management directors. For information regarding how to communicate with non-management directors as a group and one or more individual members of the Board, see "Communications with Directors" below.

Board Committees

The principal standing committees of the Board include the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each such committee operates under a written charter, current copies of which are available on the Company's website at *www.edmc.edu* under the heading "Corporate Governance" on the "Investor Relations" page of the website. Copies of the charters are also available in print to shareholders upon request, addressed to the Company's Secretary at 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania 15222.

The table below provides fiscal 2014 membership and meeting information for our principal Board committees.

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
William R. Johnson (1)			
Edward H. West			
Samuel C. Cowley	Member		
Adrian M. Jones		Chair	Member
Jeffrey T. Leeds		Member	Member
John R. McKernan, Jr.			
Leo F. Mullin	Chair		Member
Brian A. Napack	Member		
Todd S. Nelson (2)			
Paul J. Salem			Chair
Peter O. Wilde		Member	
Meetings in Fiscal 2014	10	5	4

(1) Mr. Johnson has announced his intention to not stand for reelection at the 2014 annual shareholders meeting.

(2) Mr. Nelson did not stand for reelection at the 2013 annual shareholders meeting.

Audit Committee and Audit Committee Financial Expert. Our Audit Committee assists our Board of Directors in its oversight of the integrity of our financial statements, our independent registered public accounting firm's qualifications and independence and the performance of our independent registered public accounting firm. Additionally, the Audit Committee:

- reviews the audit plans and findings of our independent registered public accounting firm and our internal audit staff, as well as the results of regulatory examinations, and tracks management's corrective action plans where necessary;
- reviews our financial statements, including any significant financial items and/or changes in accounting policies, with our senior management and independent registered public accounting firm;
- reviews our financial risk and control procedures, compliance programs and significant tax, legal and regulatory matters; and
- appoints annually our independent registered public accounting firm, evaluates its independence and performance and sets clear hiring policies for employees or former employees of our independent registered public accounting firm.

Our Audit Committee is composed solely of independent directors. Our Board of Directors has determined that Leo F. Mullin, the chairman of the Audit Committee, qualifies as an "audit committee financial expert."

Compensation Committee. Our Compensation Committee oversees our compensation and benefits policies; oversees and sets the compensation and benefits arrangements of our Chief Executive Officer and certain other executive officers; provides a general review of, and makes recommendations to our Board of Directors and/or to the Company's shareholders with respect to our equity-based compensation plans; reviews and makes recommendations with respect to all of our equity-based compensation plans that are not otherwise subject to the approval of our shareholders; implements, administers, operates and interprets all equity-based and similar compensation plans to the extent provided under the terms of such plans, including the power to amend such plans; and reviews and approves awards of shares or options to officers and employees pursuant to our equity-based plans.

Nominating and Corporate Governance Committee. The principal duties of the Nominating and Corporate Governance Committee are to recommend to the Board of Directors proposed nominees for election to the Board of Directors by the shareholders at annual meetings and to develop and make recommendations to the Board of Directors regarding corporate governance matters and practices.

Audit Committee Report

The Audit Committee reports to and acts on behalf of the Board of Directors of the Company by providing oversight of the accounting and financial reporting processes of the Company, including the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, review of the qualifications, independence and performance of the Company's independent registered public accounting firm, and oversight of the Company's internal audit function. In its role of overseeing the Company's compliance with legal and regulatory requirements, the Committee primarily meets with management on a regular basis and receives and evaluates reports of current activity. The Company's management is responsible for preparing the Company's financial statements and systems of internal control, while the Company's independent registered public accounting firm is responsible for auditing those financial statements and expressing its opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with generally accepted accounting principles.

In performing its duties, the Audit Committee meets at least quarterly and holds discussions with management and the internal auditors and independent registered public accounting firm, including private sessions with the internal auditors and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements as of and for the fiscal year ended June 30, 2014 were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm.

The Audit Committee has discussed with the independent registered public accounting firm matters required to be discussed by the applicable Auditing Standards as periodically amended, including significant accounting policies, alternative accounting treatments and estimates, judgments and uncertainties. In addition, the independent registered public accounting firm provided to the Audit Committee the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee and the independent registered public accounting firm have discussed the auditors' independence from the Company and its management, including the matters in those written disclosures and letter. Additionally, the Audit Committee considered the non-audit services provided by the independent registered public accounting firm and the fees and costs billed and expected to be billed by the independent auditors for those services. All of the non-audit services provided by the independent registered public accounting firm since the completion of the Company's initial public offering in October 2009, and the fees and costs incurred in connection with those services, have been pre-approved by the Audit Committee in accordance with the Audit Committee Pre-Approval Policy and Procedure adopted by the Committee. When approving the retention of the independent registered public accounting firm for non-audit services, the Audit Committee considered whether the retention of the independent registered public accounting firm to provide those services is compatible with maintaining auditor independence.

In reliance on the reviews and discussions with management and the independent registered public accounting firm referred to above, the Audit Committee believes that the non-audit services provided by the independent registered public accounting firm are compatible with, and did not impair, auditor independence. The Audit Committee also has discussed with the Company's internal auditors and independent registered public accounting firm, with and without management present, their evaluations of the Company's internal accounting controls and the overall quality of the Company's financial reporting.

Based on the reviews and discussions with management and the independent registered public accounting firm referred to above, the Audit Committee recommended to the Board of Directors on October 15, 2014, and the Board of Directors has approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, for filing with the Securities and Exchange Commission.

Respectfully Submitted by the Members of the Audit Committee,
Samuel C. Cowley
Leo F. Mullin, Chair
Brian A. Napack

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that may incorporate future filings (including this Form 10-K, in whole or in part), the preceding Audit Committee Report shall not be incorporated by reference in any such filings or deemed “soliciting material” or to be “filed” with the SEC.

Director Qualifications and Diversity

The Nominating and Corporate Governance Committee considers the entirety of each candidate’s credentials and does not have any specific minimum qualifications that must be met by a nominee recommended by the Nominating and Corporate Governance Committee or by a shareholder. Candidates for director nominees are reviewed in the context of the current composition of our Board of Directors, our operating requirements and the long-term interests of our shareholders. The Nominating and Corporate Governance Committee works with our Board to determine the appropriate characteristics, skills, and experiences for the Board as a whole and its individual members with the objective of having Board members with diverse backgrounds and experience. Characteristics expected of all directors include integrity, high personal and professional ethics, sound business judgment, and the ability and willingness to commit sufficient time to the Board. We believe all of our directors possess these characteristics.

In evaluating the suitability of director candidates, the Nominating and Corporate Governance Committee takes into account many factors, including a general understanding of business strategy, marketing, finance, executive compensation and other disciplines relevant to the success of a publicly traded company in today’s business environment; understanding of our business and industry; educational and professional background; personal accomplishment; whether a candidate meets the definition of independent director as specified in NASDAQ’s listing standards; and race, age, gender and ethnic diversity. The Nominating and Corporate Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best continue the success of our business and represent shareholder interests through the exercise of sound judgment using its diversity of experience. The Nominating and Corporate Governance Committee evaluates each incumbent director to determine whether the director should be nominated to stand for re-election, based on the types of criteria outlined above as well as the director’s history of meeting attendance, tenure, and preparation for and participation at Board and Board committee meetings.

Director Nomination Process

The Nominating and Corporate Governance Committee will consider director candidates properly submitted by shareholders. In considering candidates submitted by shareholders, the Nominating and Corporate Governance Committee will take into consideration the needs of the Board and the qualifications of the candidate, including those traits, abilities and experience identified above. Any submission of a proposed candidate for consideration by the Nominating and Corporate Governance Committee should include the name of the proposing shareholder and evidence of such person’s ownership of EDMC stock, and the name of the proposed candidate, his or her resume or a listing of his or her qualifications to be a director of the Company, and the proposed candidate’s signed consent to be named as a director if recommended by the Nominating and Corporate Governance Committee. Such information will be considered by the chairperson of the Nominating and Corporate Governance Committee, who will present the information on the proposed candidate to the entire Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee identifies new potential nominees by asking current directors and executive officers to notify the Nominating and Corporate Governance Committee if they become aware of persons, meeting the criteria described above, who would be good candidates for service on the Board. The Nominating and Corporate Governance Committee also, from time to time, may engage firms that specialize in identifying director candidates. As described above, the Nominating and Corporate Governance Committee will also consider candidates recommended by shareholders.

Once a person has been identified by the Nominating and Corporate Governance Committee as a potential candidate, the Nominating and Corporate Governance Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating and Corporate Governance Committee determines that the candidate warrants further consideration, the chairperson or another member of the Nominating and Corporate Governance Committee will contact the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Nominating and Corporate Governance Committee will request information from the candidate, review the candidate’s accomplishments and qualifications, including in light of any other candidates that the Nominating and Corporate Governance Committee might be considering, and conduct one or more interviews with the candidate. In certain instances, members of the Nominating and Corporate Governance Committee may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate’s accomplishments. The Nominating and Corporate Governance Committee’s evaluation process does not vary based on whether or not a candidate is recommended by a shareholder.

Board of Directors Leadership Structure

The Board annually elects one of its own members as the Chairman of the Board. Mr. Johnson currently serves as Chairman of our Board, having succeeded Mr. Nelson in November 2013. The Board has no fixed policy with respect to the separation of the offices of Chairman of the Board and Chief Executive Officer. The Board retains the discretion to make this determination on a case-by-case basis from time to time as it deems to be in the best interest of the Company and our shareholders at any given time. We believe our current board leadership structure is appropriate because Mr. Johnson has never served as our Chief Executive Officer. The Board believes that Mr. Johnson can serve effectively as a liaison between the Board and management because he previously served as the Chief Executive Officer and Chairman of another publicly-traded company. Mr. Johnson has announced his intent to not stand for reelection at the 2014 annual shareholders meeting. The Board will select another director to serve as Chairman upon his resignation.

Board of Directors Risk Oversight

The Board takes an active role in risk oversight of our Company both as a full Board and through its committees. Presentations and discussions at Board and committee meetings include an assessment of opportunities and risks inherent in our strategies and external environment.

The entire Board addresses enterprise level risks facing the Company. In connection with the execution of this duty, our Chief Executive Officer reports to the Board of Directors at each Board meeting any enterprise and other material risks facing the Company. In addition, strategic risk, which relates to the Company properly defining and achieving its high-level goals and mission, as well as operating risk, the effective and efficient use of resources and pursuit of opportunities, are regularly monitored and managed by the full Board through the Board's regular and consistent review of our operating performance and strategic plan. For example, at each of the Board's regularly scheduled meetings throughout the year, management provides presentations on the Company's performance. The entire Board of Directors approves our strategic plan and annual operating plan, the results of which are reported on by management at each regular Board meeting.

Reporting risk, which relates to the reliability of our financial reporting, and compliance risk, which relates to our compliance with applicable laws and regulations, is primarily overseen by the Audit Committee. Under its charter, the Audit Committee is responsible for oversight of our major areas of risk exposure, whether operational, financial or otherwise, the adequacy and effectiveness of our accounting and financial reporting and disclosure controls and procedures, and the steps management has taken to monitor and control such exposures and manage legal compliance. In keeping with best practices, the Company separated the legal and compliance and risk functions, with the compliance and risk function now reporting directly to the Audit Committee of the Board of Directors. In May 2013, the Company hired a Chief Compliance Officer who reports to the Audit Committee on compliance and risk matters. The Chief Compliance Officer and the head of the Company's internal audit function, which also reports to the Audit Committee and the Chief Compliance Officer, meets with the Audit Committee on a quarterly basis to discuss any potential compliance, risk, or control issues. The Audit Committee also receives a report from the Chief Compliance Officer regarding the Company's annual assessment of risks related to corporate processes, information technology processes, and schools, as well as the adequacy and effectiveness of internal control systems. Identified risks are prioritized based on the potential exposure to the business, measured as a function of severity of impact and likelihood of occurrence. In addition, the internal audit department performs an annual risk assessment regarding corporate processes, information technology processes, and schools in connection with creating its audit plan and shares the results of this risk assessment with the Audit Committee. Our internal audit department performs integrated audits designed to test business functions along with financial reporting and internal controls. Results of internal audits are discussed with the Audit Committee on a quarterly basis.

While the Board oversees the Company's risk management, management is responsible for the day-to-day risk management processes. We believe this division of responsibility is a highly effective approach for addressing the risks facing the Company and that our Board leadership structure supports this approach.

Risk in Compensation Programs

Our management, under the oversight of the Compensation Committee and with assistance from human resources and legal personnel, periodically reviews of our compensation programs to determine whether the risks arising from our compensation programs are reasonably likely to have a material adverse effect on the Company. This risk assessment process included a review of the design and operation of our compensation programs, identification and evaluation of situations or compensation elements that may raise material risks, and an evaluation of other controls and processes designed to identify and manage risk. Based on this review, we concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. We made no substantive changes to our compensation programs in fiscal 2014.

Business Ethics Policy and Code of Conduct

The Board has adopted a Business Ethics Policy and Code of Conduct that applies to every employee of the Company, including our Chief Executive Officer, Chief Financial Officer, Controller, Chief Accounting Officer, and the Board as appropriate. A current copy of the Business Ethics Policy and Code of Conduct is posted on the Company's website at *www.edmc.edu* under the heading "Corporate Governance" on the "Investor Relations" page of our website. Copies of the Business Ethics Policy and Code of Conduct are also available in print to shareholders upon request, addressed to EDMC's Secretary at 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania 15222. The Company intends to post any amendments to the Business Ethics Policy and Code of Conduct on its website.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities to file with the SEC within specified due dates reports of ownership and reports of changes of ownership of our common stock and our other equity securities. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based on reports furnished to us by these persons, we believe that all of these requirements were satisfied during fiscal 2014.

ITEM 11 EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the section of this Form 10-K entitled "Compensation Discussion and Analysis" with management. Based on this review and discussion, the Compensation Committee has recommended to the Board of Directors that the section entitled "Compensation Discussion and Analysis," be included in this Form 10-K for the fiscal year ended June 30, 2014.

Respectfully Submitted by the Members
of the Compensation Committee,
Mr. Jeffrey T. Leeds
Mr. Adrian M. Jones, Chairman
Mr. Peter O. Wilde

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the compensation philosophy, strategies, principles, policies and practices for our named executive officers (the "Named Executive Officers") for our fiscal year ended June 30, 2014, within the external context of the overall education industry and our internal values, mission, and vision.

Our Named Executive Officers for fiscal 2014 are:

- Edward H. West, President and Chief Executive Officer
- Mick J. Beekhuizen, Executive Vice President and Chief Financial Officer
- Carol A. DiBattiste, Executive Vice President and Chief Legal, Privacy, Security, and Administrative Officer
- Danny D. Finuf, President, Brown Mackie Colleges
- Donna A. Bucella, Senior Vice President, Risk and Compliance and Chief Compliance Officer

Compensation Program Objectives

Our executive compensation program is designed to meet four principal objectives which support our overall philosophy to attract and retain highly skilled, performance-oriented executives and to motivate them to achieve outstanding results.

- <u>Performance</u> - Reward successful performance by the executive and the Company by linking a significant portion of compensation to our financial and business results.
- <u>Competitive</u> - Provide competitive compensation packages to attract and retain superior executive talent.
- <u>Student Outcomes</u> - Align the compensation of executives with academic achievement and successful outcomes by students attending our schools
- <u>Shareholder Interests</u> - Align the interests of executive officers with those of our shareholders by providing long-term equity compensation and meaningful equity ownership

To meet these objectives, our compensation program balances short-term and long-term performance goals and mixes fixed and at-risk compensation that is directly related to shareholder value and overall performance.

Our compensation program for senior executives is designed to reward Company and individual performance. The compensation program is intended to reinforce the importance of performance, accountability, and good governance at various operational levels, and therefore a significant portion of total compensation is in both cash and stock-based compensation incentives that reward performance as measured against established goals. While the overall market positioning for the executive leadership team is targeted at the market seventy-fifth percentile, each element of our compensation program is reviewed individually and considered collectively with the other elements of our compensation program to ensure that it is consistent with the goals and objectives of both that particular element of compensation and our overall compensation program philosophy. For our executive officers, we look at each individual's contributions to our overall results and our operating and financial performance compared with the targeted goals.

Competitive Data

The Compensation Committee considers competitive market data provided by our independent compensation consultant, Pearl Meyer & Partners, and our executive compensation team.

In order to determine competitive compensation practices, Pearl Meyer & Partners provides the Compensation Committee with compensation data derived principally from surveys of compensation practices of comparable companies, including general survey data compiled by Pearl Meyer & Partners and additional data developed by Pearl Meyer & Partners from public filings by selected companies that the Compensation Committee considers appropriate comparators for the purposes of developing executive compensation benchmarks. The Compensation Committee believes that monitoring the compensation levels, overall compensation structure and program design, as well as the financial performance, of a peer group of other companies in the proprietary education industry provides useful information that assists the Compensation Committee in designing the executive compensation programs. The following 14 publicly traded companies in the proprietary education industry represent the peer group used for fiscal 2014 executive compensation benchmarking purposes:

Apollo Group, Inc	K12, Inc.
Graham Holding Company	Grand Canyon University
Devry, Inc.	Strayer Education, Inc.
Corinthian Colleges, Inc.	Capella Education Company
ITT Educational Services, Inc.	Lincoln Educational Services Corporation
Career Education Corporation	Universal Technical Institute
Bridgepoint Education, Inc.	American Public Education, Inc.

Mix of Compensation Program Elements

Our executive compensation during fiscal 2014 consisted of base salary, cash bonuses, grants under long-term incentive plans, benefits and perquisites. We do not have any formal or informal policy or target for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among the different forms of non-cash compensation. Similarly, compensation decisions regarding one compensation component do not directly influence decisions regarding other compensation elements. For example, an increase to the base salary of a Named Executive Officer does not require a formulaic decrease to another element of the executive's compensation. Instead, we have determined subjectively on a case-by-case basis the appropriate level and mix of the various compensation components and overall target total compensation.

We believe that together all of our compensation components provide a balanced mix of base compensation and compensation that is contingent upon each executive officer's individual performance, the Company's overall performance, and market competitiveness. Foundationally, the compensation program provides executive officers with a reasonable level of security to mitigate inappropriate risk-taking incentives through base salary and benefits, while rewarding them through incentive compensation for achievement of business objectives and shareholder value creation. In addition, we want to ensure that our compensation programs are appropriately designed to encourage executive officer retention, which is accomplished through all of our compensation elements. We believe that each of our compensation components is critical in achieving these objectives.

Annual Base Salary	Provide executives with a base level of monthly income and security
Annual Cash Bonus	Motivate executives to drive operating and financial performance
Annual Long-term Equity Incentive Awards - Restricted Stock Units (“RSUs”) - Non-Qualified Stock Options (“NQSOs”)	Link the interests of our executives with our shareholders, which motivates our executives to create shareholder value

Annual Base Salary

We determine base salaries for all of our Named Executive Officers by reviewing the individual’s performance, the value each Named Executive Officer brings to us and general labor market conditions. Elements of individual performance considered, among others, without any specific weighting given to each element, were business-related accomplishments during the year, difficulty and scope of responsibilities, effective leadership, motivation, communication, experience, expected future contributions to the Company, future potential, difficulty of replacement and accountability within the Company. While base salary provides a base level of compensation intended to be competitive with the external market, the base salary for each Named Executive Officer is determined on a subjective basis after consideration of these factors and is not based on target percentiles or other formal criteria. No element of compensation for our Named Executive Officers was set or adjusted based on compensation data regarding the compensation practices of other companies.

The base salaries of Named Executive Officers are reviewed on an annual basis, and any annual increase is the result of an evaluation of the Company’s and of the individual Named Executive Officer’s performance for the period. An increase or decrease in base pay may also result from a promotion or other significant change in a Named Executive Officer’s responsibilities during the year. In fiscal 2014, our Compensation Committee reviewed the relative internal compensation relationships among the Named Executive Officers, based principally on each executive’s level of responsibilities, individual performance and future potential. While the Board of Directors monitors these pay relationships, it does not target any specific pay ratios.

When promoted to Chief Executive Officer in August 2012, Mr. West’s base salary was increased to $850,000 effective January 2013; however, Mr. West elected to defer this increase until January 2014, and his salary remained at $568,007 until that time. Mr. Beekhuizen, Ms. DiBattiste and Ms. Bucella were hired during fiscal 2013 and did not receive a base salary increase effective during fiscal 2014. Mr. Finuf received a base salary increase in July 2013 in recognition of his promotion into his role as Executive Vice President, Education System Operations. His salary was not adjusted when he left that position and was appointed as President of Brown Mackie Colleges in April 2014.

Annual Cash Bonuses

We provide annual incentives to our executive officers and other key employees in the form of cash bonuses to align executive officer pay with overall company operational and financial performance and to promote achievement of both corporate and individual performance goals. These bonuses are granted pursuant to our management incentive compensation plan (the “MICP”), which provides that bonuses are to be paid based on the attainment of specified goals and objectives as established by the Compensation Committee at the beginning of the fiscal year. The Compensation Committee established target bonuses as a percentage of each eligible employee’s annual salary for fiscal 2014. For our executive officers, these target bonus percentages are based on their respective employment agreements and any adjustments recommended by our Chief Executive Officer for other executive officers which were approved by the Compensation Committee. For fiscal 2014, the target percentages of base salary for each of our Named Executive Officers were as follows: Messrs. West and Beekhuizen 125%, Mr. Finuf 100%, Ms. DiBattiste 80% and Ms. Bucella 70%.

At the end of the fiscal year, the Compensation Committee considers and, where it deems appropriate, approves adjustments to financial results under generally accepted accounting principles for unusual events and revisions to our operating plan which may occur during the fiscal year for purposes of computing the percentage by which a target is satisfied.

We believe that the full payout based on operational and financial targets in any given year should not be easily achievable and typically would not be achieved in every case. This uncertainty ensures that any payments under the MICP are truly performance-based for our non-campus based employees, consistent with the plan’s objectives. We also recognize that the likelihood of achieving either level of performance for any given year may be different, and we believe that the bonus amount paid should be appropriate for the performance level achieved for our non-campus based employees.

For fiscal 2014, the Compensation Committee established a minimum threshold of $350.3 million of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), as adjusted to exclude amounts expensed in connection with fiscal 2014 MICP awards and other items approved by the Compensation Committee (“Adjusted EBITDA”), before payments were made to executives under the MICP. If the minimum Adjusted EBITDA threshold was achieved, payments were to be made to our Named Executive Officers based on the following percentages: 75% based on EBITDA; and 25% based on a student satisfaction survey. Payments to Named Executive Officers as a percentage of their annual MICP target were based on Adjusted EBITDA above the minimum threshold up to a maximum of $391.0 million of Adjusted EBITDA, at which point participants would receive 100% of their annual target bonus.

The adjustments to EBITDA for MICP expense and certain other expenses approved by the Compensation Committee when computing the fiscal 2014 MICP earnings target for the Company on an overall basis as compared to the minimum payment threshold is as follows (dollars in millions):

	Actual	Minimum Payment Threshold	
EBITDA (excluding all asset impairment charges)	$ 231.5	$ 342.6	
Restructuring and other charges	44.7	—	
MICP expense	6.4	7.7	(1)
Total MICP Earnings	$ 282.6	$ 350.3	

(1) Represents 100% of budgeted payments under MICP for campus-based employees, which are not based on financial performance.

Accordingly, no bonus payments were made to Named Executive Officers based on the fiscal 2014 MICP because the minimum payment threshold of $350.3 million of Adjusted EBITDA was not achieved. Ms. DiBattiste and Ms. Bucella received bonuses of $484,000 and $262,500, respectively, under the terms of their respective employment agreements. The employment agreements provide that, for fiscal year 2014, the annual bonus will equal one hundred percent of the target bonus of Ms. DiBattiste and Ms. Bucella, respectively, regardless of the performance criteria established for the annual cash bonuses.

The Compensation Committee has the discretion to increase or decrease a bonus computed under the terms of the MICP by up to 20% of the amount otherwise payable under the plan. The Compensation Committee awards discretionary increases or decreases to bonuses based on the overall performance of each employee, including an employee's contributions to the Company and any superior or noteworthy efforts or leadership by an employee, as well as other factors. The Compensation Committee did not award any discretionary adjustments to MICP participants in fiscal 2014.

Annual Long-Term Incentive Plans

The Compensation Committee believes that equity-based compensation awards foster and promote our long-term operational and financial success by linking the interests of our executive management team with our shareholders. The Compensation Committee also believes that increasing the personal equity stake of our executive officers in our continued success and growth can potentially materially increase shareholder value. Equity-based compensation awards also enable us to attract and retain the services of an outstanding management team, upon which the success of our operations are largely dependent. Based on the 2010 recommendation of Towers Watson in its role as independent compensation consultant to the Company, the Compensation Committee adopted a policy to target the following percentages of long-term incentive compensation awards based on its study of general industry peer companies with a global corporate revenue between one billion and three billion dollars:

Executive Officers - 75th Percentile

Key Operational Roles - 60th Percentile

Other Equity Eligible Employees - 50th Percentile

The below table describes the timing of NQSO and RSU awards:

	Timing	Grant Date/Grant Price	Approval
New Hire & Promotions	Awarded to all eligible newly hired or promoted employees on the date of the following quarterly Compensation Committee meeting.	The date of the Compensation Committee meeting is the grant date and the closing price of our common stock on the grant date is the grant price.	Award amounts are presented to the Compensation Committee for approval during scheduled quarterly meetings.
Annual Award	Awarded to all eligible active employees at the time of our annual shareholders meeting in the second quarter of each fiscal year, including Q1 new hires and promotions.	The Compensation Committee meeting coinciding with the annual meeting is the grant date and the closing price of our common stock on the grant date is the grant price.	Final award amounts are presented to the Compensation Committee for approval during the second quarter Compensation Committee meeting.

The Compensation Committee considers the type and size of long-term incentive awards issued by companies in the

Company's defined peer group when determining annual awards to executive officers. After determining an appropriate award size for each executive, 70% of the award grants are made in the form of NQSOs and 30% in the form of RSUs. Option values are determined using a Black-Sholes-Merton option pricing model and RSU values are determined by dividing the award by the closing price of a share of the Company's common stock on the grant date. Annual grants vest over a four year period, with 25% vesting on each of the first four anniversaries of the date of grant. From time to time the Compensation Committee has granted RSUs with varied vesting schedules such as three equal installments over three years and two equal installments over a one year period as talent acquisition and retention tools. The Compensation Committee approved grants to employees of 1,494,871 options with a weighted average exercise price of $12.74 per share and 585,846 RSUs under the 2012 Plan (as defined below) during fiscal 2014. Virtually all stock options and RSUs granted during fiscal 2014, and all stock options and RSUs granted to the Named Executive Officers during fiscal 2014, vest over a four-year period, with 25% vesting on each of the first four anniversaries of the date of grant.

2012 Omnibus Long-Term Incentive Plan. Effective in August 2012, the Board adopted the Education Management 2012 Omnibus Long-Term Incentive Plan, which we refer to as the 2012 Plan, in connection with a one-time stock option exchange program that the Company completed in September 2012 (the "Option Exchange"). The Company amended the 2012 Omnibus Plan, pursuant to the approval of shareholders, in November 2013 to formally authorize the grant of cash and stock-based awards that generally have a performance period of one year and to increase the number of shares of common stock authorized for issuance by 4.0 million. Grants under the 2012 Plan are designed to motivate our executives to:

- Act in a manner that benefits the Company's long-term performance;
- Further align their interests with that of other shareholders;
- Focus on return on capital; and
- Remain with the Company long-term.

Under the 2012 Plan, we may grant stock options, SARs, restricted stock and RSUs. In general, stock options and SARs provide actual economic value to the holder if the price of our stock has increased from the grant date at the time the option or SAR, as applicable, is exercised. In contrast, restricted stock is common stock and RSUs generally convert to shares of common stock when they vest, so they will have a gross value at that time equal to the then-current market value. While stock options and SARs motivate executive officers by allowing them to benefit from upside stock appreciation, restricted stock and RSUs assist the Company in retaining executive officers because they will have value even if our stock price declines or stays flat.

Under the terms of the Option Exchange consummated in September 2012, the Company offered employees of the Company and other eligible option holders the opportunity to exchange all, or in some cases a portion, of their existing stock options for new stock options to purchase shares of the Company's common stock at an exercise price equal to the closing price for a share of such common stock on the NASDAQ Global Select Market on September 13, 2012, in each case subject to certain terms and conditions. Holders tendered 11,570,033 options and on September 13, 2012, the Company canceled the tendered stock options and granted an aggregate of 8,254,667 new stock options under the 2012 Plan, which we refer to as "replacement options," in exchange. The replacement options have an exercise price of $3.59 per share and are subject to vesting terms that vary depending in part upon the original vesting schedule and other vesting terms of the corresponding stock options surrendered in the Option Exchange.

The Named Executive Officers received the following grants of stock options and RSUs under the 2012 Plan during fiscal 2014:

Name	Stock Option Grants	Option Exercise Price	RSU Grants
Edward H. West	251,831	$12.74	64,756
Mick J. Beekhuizen	73,260	$12.74	18,838
Carol A. DiBattiste	91,575	$12.74	23,547
Danny D. Finuf	54,945	$12.74	14,128
Donna A. Bucella	27,472	$12.74	7,064

Omnibus Long-Term Incentive Plan. In April 2009, our Board of Directors adopted the Education Management Corporation Omnibus Long-Term Incentive Plan, which we refer to as the Omnibus Plan. The Omnibus Plan was designed to allow us to administer all future stock and other equity-based awards under a single plan to increase the efficiency and effectiveness of our long-term incentive programs, reduce administrative and regulatory costs, and allow greater transparency with respect to our equity compensation practices. With regard to grants made under the Omnibus Plan, to the extent not surrendered for exchange in the Option Exchange, these options also vest upon the occurrence of a change in control as defined under the 2012 Plan as any of the following occurrences, subject to certain exceptions:

- Any individual, entity or group becomes the beneficial owner of 30% or more of either (A) our outstanding shares of common stock or (B) the combined voting power of the outstanding shares of securities entitled to vote generally in the election of directors, provided that acquisitions of stock from us, by us, by an employee benefit plan we sponsor, or by the Sponsors other than in connection with a going private transaction will not constitute a change in control;
- Incumbent Board members (including directors elected subsequently with the vote of the majority of our shareholders) cease to constitute at least a majority of our Board;
- Consummation of a business combination or reorganization except where our shareholders own more than 50% of the outstanding ownership interests in the resulting entity after the consummation of the business combination or reorganization; or
- Approval by our shareholders of a complete liquidation or dissolution.

None of the Named Executive Officers received option grants from the Omnibus Plan during fiscal 2014. The individual grant size is determined by the Compensation Committee. The Compensation Committee used time-based options because they offer a retentive feature that satisfies an important program objective by providing continuity through business cycles as well as smoothing payout volatility. Time-based options also provide further alignment with shareholders through increased ownership levels.

As a result of our adoption of the 2012 Plan, the Omnibus Plan was frozen such that no further awards will be made under the plan. However, those shares subject to stock options granted under the Omnibus Plan that are canceled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number of shares underlying such stock options or otherwise terminated without delivery of shares to the grantees are available for issuance under the 2012 Plan. Awards that remain outstanding under the Omnibus Plan are administered under the terms of the Omnibus Plan.

2006 Stock Option Plan. We adopted the 2006 Stock Option Plan in connection with the Transaction. Under the 2006 Stock Option Plan, certain management and key employees of the Company were granted a combination of time-based options and performance-based options to purchase common stock issued by us. Time-based options generally vest ratably over a five-year period on the anniversary of the date of the grant. Time-based options generally vest upon a change of control, subject to certain conditions, and both time-based and performance-based options expire ten years from the date of grant. A change of control would occur upon any transaction or occurrence immediately following as a result of which certain private equity funds affiliated with the Principal Shareholders, in the aggregate, cease to beneficially own securities of EDMC representing a majority of the outstanding voting power entitled to vote for the election of directors.

When issued, performance-based options vest upon the attainment of specified returns on invested capital in EDMC by the private equity funds affiliated with Providence Equity Partners and Goldman Sachs Capital Partners (collectively, the "Principal Shareholders") that invested in EDMC in connection with the Transaction. During fiscal 2011, the Board of Directors approved an amendment to the terms of all outstanding performance-based options, including those held by the Named Executive Officers, to provide that a percentage of the options will vest upon a sale of shares by the Principal Shareholders based on the greater of (i) the cumulative number of shares sold by the Principal Shareholders as a percentage of all shares purchased by the Principal Shareholders in connection with the Transaction, and (ii) the attainment of the specified returns on invested capital in EDMC by the Principal Shareholders as previously provided by the performance-based options. More specifically, vesting provisions based on specified returns to the Principal Shareholders generally provide that the options vest in 20% increments upon the Principal Shareholders' realizing, through one or more "Realization Events," multiples of their invested capital of two, two and a half, three, three and a half, and four. A minimum realized return multiple of two is required for any of the options to vest and all options vest if a return multiple of four is realized. For these purposes a "Realization Event" is any event or transaction (i) in which the Principal Shareholders receive cash or marketable securities in respect of their interest in shares of our common stock, including by means of a sale, exchange or other disposition of their interests in shares of our common stock (other than transfers by members of the Principal Shareholders to or among their respective affiliates) or dividends or other distributions from the Company to its shareholders or (ii) the first day after (a) the Principal Shareholders cease to own in the aggregate at least 30% of our outstanding voting securities, measured by voting power, and (b) the Principal Shareholders have, in the aggregate, disposed of at least 70% of their shares and have received cash or marketable securities for such shares. We granted these performance-based options to align even more closely the interests of our employees with those of our shareholders by tying the vesting of those options to the realization of target equity values by the Principal Shareholders. Because these options will not vest unless the Principal Shareholders sell the shares of common stock they received in connection with their original investment, this drives our Named Executive Officers to increase our financial performance and stock value and liquidity, which benefits all of our shareholders, not just the Principal Shareholders.

Performance-based options also ensure both shareholder alignment and focus on business priorities, by clearly communicating what is most important in driving business performance and ultimately creating shareholder value. We believe that a performance-based option program focusing on the sale of shares by the Principal Shareholders creates specific alignment with objectives for growth, profitability and shareholder value. As a private company, we subjectively allocated the number of time-based and performance-based option grants to our Named Executive Officers in amounts that we believed would both retain the Named Executive Officers as well as motivate them to drive our financial performance.

As a result of our adoption of the Omnibus Plan, the 2006 Stock Option Plan was frozen such that no further awards will be made under the plan. However, those shares subject to stock options granted under the 2006 Stock Option Plan that are canceled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number of shares underlying such stock options or otherwise terminated without delivery of shares to the grantees, are available for issuance under the 2012 Plan. Awards that remain outstanding under the 2006 Stock Option Plan are administered under the terms of the 2006 Stock Option Plan.

Long-Term Incentive Compensation Plan. We adopted a Long-Term Incentive Compensation Plan ("LTIC Plan") in December 2006. We implemented the LTIC Plan principally to serve as another tool to align the interests of our employees with the interests of our shareholders by motivating them to increase share value by giving them the opportunity to benefit if our stock price rises, which increased share value is also the primary interest of our shareholders. Pursuant to the terms of the LTIC Plan, a bonus pool will be created after the occurrence of a "Realization Event" based on returns to the Principal Shareholders in excess of their initial investment. The size of the bonus pool can generally range from $2 million to $21 million, based on the Principal Shareholders realizing from two times their initial investment to four times their initial investment, provided that if the return realized by the Principal Shareholders exceeds four times their initial investment, the bonus pool will equal the product of 0.0075 and the aggregate proceeds in excess of the total capital invested in shares of our common stock by all EDMC shareholders. The amount of the bonus pool that an employee will be entitled to receive will be determined by multiplying the amount of the bonus pool by a fraction, the numerator of which is the total number of units held by the employee and the denominator of which is 1,000,000. Payments by us to the LTIC Plan will be in cash or, at the election of our Board of Directors, shares of our common stock. For purposes of the LTIC Plan, a "Realization Event" is the first day after (a) certain private equity funds affiliated with the Principal Shareholders cease to own in the aggregate at least 30% of our outstanding voting securities, measured by voting power, and (b) the Principal Shareholders have, in the aggregate, disposed of at least 70% of their shares and have received cash or marketable securities for such shares. None of our executive officers participated in the LTIC Plan during fiscal 2014.

Equity Compensation Plan Information

The following table sets forth information about our equity compensation plans as of June 30, 2014.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Plans approved by shareholders(1)	14,126,548 (2)	$ 3.61 (3)	7,660,090
Plans not approved by shareholders	-	—	-
Total	14,126,548	$ 3.61	7,660,090

(1) Consists of the 2012 Plan, Omnibus Plan, 2006 Stock Option Plan and LTIC Plan. Following the adoption of the 2012 Plan in September 2012, no new awards will be made under the prior plans.

(2) In addition to shares issuable upon the exercise of stock options outstanding under the 2012 Plan, Omnibus Plan and 2006 Stock Option Plan, also includes 434,320 shares issuable upon the settlement of units under the LTIC Plan, assuming the occurrence of a "Realization Event" in which returns to the Principal Shareholders equals two times their initial investment and based on our stock price of $1.69 at June 30, 2014. The units may be settled in cash or, at the election of our Board of Directors, shares of our common stock.

(3) Units under the LTIC Plan and RSUs do not have an exercise price and therefore were not included for purposes of computing the weighted-average exercise price.

Benefits and Perquisites

We offer a variety of health and welfare programs to all eligible employees, including the Named Executive Officers. The Named Executive Officers generally are eligible for the same benefit programs on the same basis as the rest of the Company's employees, including medical and dental care coverage, life insurance coverage, short-and long-term disability and a 401(k) plan. In addition, we maintain a nonqualified deferred compensation plan that is available to all key executives, officers and certain other employees. For a description of the terms of this plan, as well as information about the account balances held by each of the Named Executive Officers, see "Nonqualified Deferred Compensation" below.

We also offer to certain executives limited perquisites as a method of compensation and provide executive officers with only those perquisites that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. The perquisites provided to the Named Executive Officers include reimbursement of relocation expenses and related tax gross-ups and are quantified in the Summary Compensation Table below and are further described in the description of Employment Agreements below.

SUMMARY COMPENSATION TABLE

The following table sets forth information regarding the compensation of the Company's Named Executive Officers for the fiscal years ended June 30, 2014, 2013, and 2012.

Name and Principal Position(1)	Fiscal Year	Salary	Bonus (2)	Stock Awards (3)	Options Awards (4)	Non-Equity Incentive Plan Compensation (5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (6)	Total
Edward H. West President and Chief Executive Officer	2014	709,003	—	824,991	1,925,000	—	—	65,870	$ 3,524,864
	2013	568,007	—	—	4,860,630 (7)	531,250	—	65,417	$ 6,025,304
	2012	584,812	—	—	2,847,000	583,627	—	85,100	$ 4,100,539
Mick J. Beekhuizen Executive Vice President and Chief Financial Officer	2014	500,000	—	239,996	560,000	—	—	29,836	1,329,832
	2013	97,458	—	—	3,353,500 (7)	—	—	9,256	3,460,214
Carol A. DiBattiste Executive Vice President and Chief Legal, Privacy, Security, and Administrative Officer	2014	605,000	484,000	299,989	700,000	—	—	101,149	2,190,138
	2013	162,885	100,000	1,066,500	233,800 (7)	—	—	21,450	1,584,635
Danny D. Finuf President, Brown Mackie Colleges	2014	450,000	—	179,991	420,000	—	—	97,470	1,147,461
	2013	377,477	—	165,000	823,533 (7)	188,739	—	22,668	1,577,417
	2012	384,076	—	—	664,300	291,601	—	14,842	1,354,819
Donna A. Bucella SVP, Risk and Compliance and Chief Compliance Officer	2014	375,000	262,500	89,995	210,000	—	—	82,925	1,020,420
	2013	34,075	—	140,600	210,900	—	—	—	385,575

(1) Mr. Beekhuizen was hired as Executive Vice President and Chief Financial Officer in April 2013. Ms. DiBattiste was hired as Chief Legal and Compliance Officer in March 2013 and was appointed Executive Vice President and Chief Legal, Privacy, Security, and Administrative Officer in May 2013. Ms. Bucella was hired as Senior Vice President, Risk and Compliance and Chief Compliance Officer in May 2013.

(2) Amounts in this column represent discretionary bonuses paid to the executive under the MICP. The Compensation Committee has the discretion under the MICP to award individual plan participants bonuses in additional to their respective MICP payouts in an amount up to 20% of each such participant's MICP payout for the relevant fiscal year. There were no such payments in fiscal 2014. Under the terms of her employment agreement, Ms. DiBattiste received a bonus of $100,000 for fiscal 2013 and $484,000 in fiscal 2014. Ms. Bucella received a bonus of $262,500 in fiscal 2014 under the terms of her employment agreement.

(3) The value of the RSU stock awards is equal to the Company's stock price at the date of grant as computed in accordance with FASB ASC Topic 718.

(4) Amounts shown represent the aggregate grant date fair value, computed in accordance with ASC 718, of all awards of stock options granted to the Named Executive Officer or materially modified in the year indicated. The option awards relate solely to shares of our Common Stock and do not involve cash compensation. None of the Named Executive Officers has received any stock appreciation rights.

We used a Black-Scholes-Merton option pricing model to determine the grant date fair value of the stock options granted or materially modified in each of the years indicated, which takes into account the variables defined below:

- *"Volatility"* is a statistical measure of the extent to which the stock price is expected to fluctuate during a period as determined by the historical volatility of a seven company peer group.
- *"Expected life"* is the weighted average period that those stock options are expected to remain outstanding, based on a simplified method using the average of the weighted average vesting term and the contractual term of the options.
- *"Risk-free interest rate"* is based on interest rates for terms that are similar to the expected life of the stock options.
- *"Dividend yield"* is based on our historical and expected future dividend payment practices.

The following table sets forth the assumptions supporting those variables that were used to determine the values reported with respect to the stock options granted to the Named Executive Officers in fiscal 2014:

	Time Vested Options
Volatility	64.0%
Expected life	6.25 yrs.
Risk free investment rate	1.90%
Dividend yield	0.0%

With regard to the replacement options exchanged under the Option Exchange on September 13, 2012, the incremental fair value of the modified award is included in this column as calculated under ASC Topic 718. The incremental fair value of the modified award is the fair value of the modified award at the date of modification minus the fair value of the original award at the date of modification. The following table sets forth the assumptions supporting those variables that were used to determine the values reported with respect to the time-based replacement stock options granted to the Named Executive Officers in fiscal 2014:

	Replacement Options (6,300,075)
Volatility	80-87 %
Expected life	2.94-6.25 yrs
Risk free investment rate	0.32-0.95 %
Dividend yield	0.0 %

	Cancelled Options (8,525,171)
Volatility	78-87 %
Expected life	2.25-7.67 yrs
Risk free investment rate	0.27-1.26 %
Dividend yield	0.0 %

Fair Value per Replaced Option: $1.87 - $2.53

Fair Value per Cancelled Option: $0.78 - $1.97

(5) Amounts in this column represent the bonus paid to the executive as computed in accordance with the MICP for the respective fiscal year. For fiscal 2014, based on the results of the Company's EBITDA target, none of the Named Executive Officer's received an MICP payment, except where required by the terms of their employment agreement.

(6) The following table summarizes all other income for each of the Named Executive Officers for each of the last three fiscal years:

	Fiscal Year	Deferred Compensation Plan Contribution (a)	401(k) Plan Matching Contribution (b)	Travel and Housing Reimb. (c)	Life Insurance and Other Benefits	Total
Edward H. West	2014	54,098	10,962	—	810	65,870
	2013	54,098	10,509	—	810	65,417
	2012	73,773	10,486	—	841	85,100
Mick J. Beekhuizen	2014	—	10,577	18,773	486	29,836
	2013	—	—	9,228	28	9,256
Carol A. DiBattiste	2014	—	16,335	81,250	3,564	101,149
	2013	—	—	20,941	509	21,450
Danny D. Finuf	2014	—	18,588	77,640	1,242	97,470
	2013	—	7,500	3,430	11,738	22,668
	2012	—	5,692	—	9,150	14,842
Donna A. Bucella	2014	—	10,575	70,085	2,265	82,925
	2013	—	—	—	—	—

(a) Represents the amount paid to the Company's nonqualified deferred compensation plan on the executive's behalf due to a limitation on the amount of the Company's match to the 401(k) plan due to Internal Revenue Code limitations on the amount the executive can contribute to the 401(k) plan each calendar year.

(b) Represents the Company's match to the executive's contribution to the 401(k) plan.

(c) Represents the amount of reimbursement for living expenses in Pittsburgh, PA.

(7) For each of the Named Executive Officers, the grant date fair value for new options and incremental fair value of replacement options are as follows: Mr. West $4,630,000 and $233,630: Mr. Beekhuizen $3,353,500 and $0; Ms. DiBattiste $233,800 and $0; and Mr. Finuf $785,000. The incremental fair value of the replacement options is measured on a grant-by-grant basis.

Grants of Plan-Based Awards during the Fiscal Year Ended June 30, 2014

The following table sets forth information with respect to grants of plan-based awards to the Named Executive Officers during the fiscal year ended June 30, 2014.

Name	Award Type	Equity Award Grant Date Grant Date	Estimate Future Payouts Under Non-Equity Incentive Plan Awards(1) ($)			Estimate Future Payouts Under Equity Incentive Plan Awards ($)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($)	Grant Date Fair Value of Stock and Option Awards ($)(5)
			Threshold(2)	Target (3)	Maximum (4)	Threshold	Target	Maximum				
Edward H. West	MICP	—	531,250	1,062,500	531,250	-	-	-	-	-	-	-
	Options	11/8/2013	-	-	-	-	-	-	-	251,837	12.74	1,925,000
	RSUs	11/8/2013	-	-	-	-	-	-	64,756	-	-	824,991
Mick J. Beekhuizen	MICP	—	312,500	625,000	312,500	-	-	-	-	-	-	-
	Options	11/8/2013	-	-	-	-	-	-	-	73,260	12.74	560,000
	RSUs	11/8/2013	-	-	-	-	-	-	18,838	-	-	239,996
Carol A. DiBattiste(6)	MICP	—	242,000	484,000	484,000	-	-	-	-	-	-	-
	Options	11/8/2013	-	-	-	-	-	-	-	91,575	12.74	700,000
	RSUs	11/8/2013	-	-	-	-	-	-	23,547	-	-	299,989
Danny D. Finuf	MICP	—	225,000	450,000	225,000	-	-	-	-	-	-	-
	Options	11/8/2013	-	-	-	-	-	-	-	54,945	12.74	420,000
	RSUs	11/8/2013	-	-	-	-	-	-	14,128	-	-	179,991
Donna A. Bucella(6)	MICP	—	131,250	262,500	262,500	-	-	-	-	-	-	-
	Options	11/8/2013	-	-	-	-	-	-	-	27,472	12.74	210,000
	RSUs	11/8/2013	-	-	-	-	-	-	7,064	-	-	89,995

(1) Information in this table shows the "target" and "maximum" possible payouts that could have been achieved for the Named Executive Officers under the MICP for fiscal 2014. There were no payments to executive officers under the fiscal 2014 MICP because the minimum threshold for payments under the plan was not satisfied. Ms. DiBattiste and Ms. Bucella received bonus payments in fiscal 2014 under the terms of their respective employment agreements.

(2) The minimum, or "threshold," level of performance that will support payments under the MICP for fiscal 2014 is 100% of the MICP earnings target for the fiscal year for the overall Company.

(3) The "target" payouts under the MICP are expressed as percentages of base salary. For fiscal 2014, the target percentages of base salary for each of our Named Executive Officers were as follows: Messrs. West and Beekhuizen 125%, Mr. Finuf 100%, Ms. DiBattiste 80%, and Ms. Bucella 70%.

(4) The "maximum" payout for any MICP participant in fiscal 2014 is 50% of the participant's target bonus, except where specified otherwise by employment agreement.

(5) See footnote 4 to the "Summary Compensation Table" for the relevant assumptions used to determine the valuation of option awards.

(6) Ms. DiBattiste and Ms. Bucella received 100% of their target annual MICP bonus amount per the terms of their respective employment agreements.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements

We have entered into employment agreements with some our executive officers and certain other senior managers. The agreements were designed to retain executives and provide continuity of management in the event of an actual or threatened change of control. In addition, under the terms of the option awards made to executives, accelerated vesting of options occurs if a change of control takes place or due to certain other termination events. These arrangements and potential post-employment termination compensation payments are described in more detail in the section entitled "Potential Payments Upon Termination or Change-in-Control" below.

West Employment Agreement. Effective as of June 1, 2006, we entered into an employment agreement with Mr. West, which was amended as of October 2, 2012 (as amended, the "*West Agreement* "). The West Agreement was for an initial term of three years ending on June 1, 2009 and is subject to successive, automatic one-year extensions unless either party gives notice of non-extension to the other party at least 180 days prior to any renewal date. Mr. West received a base salary at an annual rate of $568,007 which was increased to $850,000 in connection with his promotion to Chief Executive Officer, and which is reviewed annually and may be adjusted upward by the Board of Directors, plus a target bonus of 125% of his annual salary and other employee benefits under the various benefit plans and programs we maintain for our employees. Mr. West elected to defer his salary increase until January 2014. Mr. West also received grants of options to purchase an aggregate amount of 2,000,000 shares of EDMC common stock, par value $0.01 per share under the terms of the amendment to his employment agreement, which may be exercised when vested but which may not be disposed of by Mr. West prior to the eighth anniversary of the grant dates unless and until one or more of the investment funds associated with Providence Equity Partners or Goldman Sachs Capital Partners that are invested in EDMC common stock sell a portion of their holdings of common stock.

Mr. West also purchased $500,000 of EDMC common stock pursuant to a purchase agreement with the Principal Shareholders when he joined the Company in June 2006.

We may terminate the West Agreement with or without cause and Mr. West may resign in each case, other than a termination for cause, upon 30 days' advance written notice to the other party. Under the West Agreement, "cause" means (i) Mr. West's willful and continued failure to use his best efforts to perform his reasonably assigned duties (other than on account of disability); (ii) Mr. West is indicted for, convicted of, or enters a plea of guilty or *nolo contendere* to, (x) a felony or (y) a misdemeanor involving moral turpitude; (iii) in carrying out his duties under the West Agreement, Mr. West engages in (x) gross negligence causing material harm to us or our business or reputation, (y) willful and material misconduct or (z) willful and material breach of fiduciary duty; or (iv) Mr. West willfully and materially breaches (x) the restrictive covenants described in the West Agreement or (y) certain material written policies of EDMC, as in effect on the effective date of the West Agreement.

Upon an eligible termination for any reason, Mr. West will continue to receive payment of any base salary earned but unpaid through the date of termination and any other payment or benefit to which he is entitled under the applicable terms of any applicable Company arrangements. Under the West Agreement, if Mr. West is terminated during his term other than for cause, or by Mr. West for good reason, Mr. West is entitled to a lump sum severance payment of (i) one and one-half times (or three times if the date of termination is in anticipation of or within two years following a change of control, as defined in the 2006 Stock Option Plan) the sum of Mr. West's base salary plus the target annual bonus and (ii) a pro-rata annual bonus based on his actual annual bonus. "Good reason," as that term is used above, includes (a) any material diminution of authorities, titles or offices, (b) any change in the reporting structure such that Mr. West reports to someone other than the Board, (c) a relocation of primary place of employment by more than 50 miles, (d) a material breach of ours of any material obligation to Mr. West, (e) any failure of ours to obtain the assumption in writing of our obligation to perform the West Agreement by any successor following a change of control and (f) any failure to re-elect Mr. West as a member of the Board. If we terminate the West Agreement effective upon expiration of the term with timely notice to Mr. West, and Mr. West elects to terminate his employment within 30 days after the end of the term, then such termination will be treated as a termination without cause under the West Agreement.

The West Agreement contains non-competition, non-solicitation and confidentiality covenants. The non-competition provision continues for a period of 18 months following termination of employment.

Beekhuizen Employment Agreement. Effective August 27, 2013, the Company entered into an Employment Agreement with Mr. Beekhuizen (the "Beekhuizen Agreement"). Pursuant to the Beekhuizen Agreement, Mr. Beekhuizen will serve as the Company's Chief Financial Officer during the three-year term of the Agreement, which is subject to successive, automatic one-year extensions unless either party gives notice of non-extension to the other party at least 180 days prior to any renewal date. The Beekhuizen Agreement provides for a base salary of $500,000, which will be reviewed annually and may be adjusted upward by the Board of Directors (the "Board") or a Committee thereof, in its discretion, based on competitive data and Mr. Beekhuizen's performance. Mr. Beekhuizen is also eligible to participate in various employee benefit plans and programs we maintain for our employees.

Mr. Beekhuizen is also eligible to receive an annual target bonus of 125% of his annual base salary under the Company's management incentive compensation plan, which provides for the payment of bonuses based on the attainment of specified goals and objectives. Pursuant to the Beekhuizen Agreement, Mr. Beekhuizen also received a grant of options to purchase an aggregate of 950,000 shares (the "Underlying Shares") of the Company's common stock, par value $0.01 per share (the "Common Stock"), which vest 25% per year on each of the first four anniversaries of the date of the grant. Prior to the eighth anniversary of the grant date, Mr. Beekhuizen may exercise such options when vested, but may not dispose of 633,333 of the Underlying Shares unless and until one or more of the investment funds associated with Providence Equity Partners or Goldman Sachs Capital Partners that are invested in the Common Stock sell a portion of their holdings of Common Stock.

Until the earlier of December 31, 2014, or the date that Mr. Beekhuizen permanently relocates to Pittsburgh, Pennsylvania, Mr. Beekhuizen shall be provided with a furnished apartment in Pittsburgh, and be reimbursed for reasonable travel expenses, including gross-up payments, if applicable, for weekly round trips to and from the New York, New York, metropolitan area. In accordance with the Company's relocation policy, the Company shall bear the cost of customary relocation expenses to Mr. Beekhuizen, including tax gross-up payments, if necessary.

The Company may terminate the Beekhuizen Agreement with or without Cause (as defined in the Agreement), and Mr. Beekhuizen may resign, in each case (other than in the case of a termination for Cause), upon 30 days' advance written notice to the other party. Except in the case of Mr. Beekhuizen's death or disability, if Mr. Beekhuizen is terminated during his term other than for Cause, or if Mr. Beekhuizen terminates his employment with the Company for Good Reason, he is entitled to receive a lump sum severance payment of (i) one and one-half times (or two times if the date of termination is In Anticipation Of (as defined in the Agreement) or within two years following a Change of Control (as defined in the 2012 Omnibus Long-Term Incentive Plan or successor long-term incentive plan)) the sum of Mr. Beekhuizen's base salary plus his target annual bonus and (ii) a pro-rata annual bonus based on his actual annual bonus conditioned upon the execution and delivery of a general release of claims against the Company). The Agreement also provides for certain payments to Mr. Beekhuizen or to his estate, as applicable, in the event that Mr. Beekhuizen's employment with the Company terminates as a result of his death or disability.

"Good Reason," as that term is used above, includes (a) any material diminution of authorities, titles or offices, or the assignment to Mr. Beekhuizen of duties that materially impair his ability to perform the duties normally assigned to an executive in his role at a corporation of the size and nature of the Company, (b) any change in the reporting structure such that Mr. Beekhuizen reports to someone other than the Chief Executive Officer, (c) any relocation of the Company's principal office or Mr. Beekhuizen's primary place of employment to a location more than 400 miles from New York, New York, (d) a material breach by the Company or any of its affiliates of any material obligation to Mr. Beekhuizen and (e) any failure by the Company to obtain the assumption in writing of its obligation to perform the Agreement by any successor to all or substantially all of the assets of the Company within fifteen (15) days after any merger, consolidation, sale or similar transaction, except where such assumptions occurs by operation of law.

The Beekhuizen Agreement contains non-competition, non-solicitation, non-disparagement, and confidentiality covenants. The non-competition provision continues for a period of 18 months following termination of employment.

Other Executive Employment Agreements. The employment agreements with Ms. DiBattiste and Ms. Bucella include the following material terms:

- An initial three-year term, with one-year automatic renewals unless terminated on 180 days' advance notice, provided that if we terminate the agreement effective upon expiration of the term with timely notice to the executive, and the executive elects to terminate the employment within 30 days after the end of the term, then such termination will be treated as a termination without cause under the employment agreement;
- An annual base salary which is reviewed annually and may be adjusted upward by the Board of Directors, plus a target bonus based on a percentage of the executive's annual salary;
- Employee benefits under the various benefit plans and programs we maintain for our employees;
- Participation in the EDMC equity plans;
- Monthly salary and bonus payments for 12 months upon a termination without "cause" or a resignation for "good reason," provided that the period of monthly payments increases to two years if the termination without cause or resignation for good reason if the date of termination is in anticipation of or within two years following a change of control, as defined in the 2006 Stock Option Plan;
- *"Cause"* means (i) the individual's willful and continued failure to use his best efforts to perform his reasonably assigned duties (other than on account of disability); (ii) the individual is indicted for, convicted of, or enters a plea of guilty or *nolo contendere* to, (x) a felony or (y) a misdemeanor involving moral turpitude; (iii) the individual engages in (x) gross negligence causing material harm to us or our business or reputation, (y) willful and material misconduct or (z) willful and material breach of fiduciary duty; or (iv) the individual willfully and materially breaches (x) the restrictive covenants described in his or her respective agreement or (y) certain material written policies, as in effect on the effective date of the agreement;
- *"Good reason"* means the occurrence of any of the following events without either the individual's prior written consent or full cure within 30 days after he or she gives written notice to us describing the event and requesting cure: (i) the reassignment of the individual to a position that is not a corporate officer level position or the assignment of the individual of duties that are not consistent with such corporate officer level position; (ii) any relocation of the individual's principal place of employment; (iii) any material breach by us or any of our affiliates of any material obligation to the individual; or (iv) any failure of ours to obtain the assumption in writing of our obligation to perform his or her respective agreement by any successor to all or substantially all of our assets within 15 days after any merger, consolidation, sale or similar transaction, except where such assumption occurs by operation of law;
- Noncompetition, confidentiality and nonsolicitation restrictive covenants for a period of 12 months after termination of employment;
- In the event of the executive's disability, continuation of all compensation and benefits through the earlier to occur of the next anniversary of the date of the employment agreement or the date of the executive's death, provided that the obligation to pay the executive's base salary will be reduced by the amounts paid to the executive under any long-term disability insurance plan that we sponsor or otherwise maintain and that in no event will our total annual obligation for base salary payments to the executive be greater than an amount equal to two-thirds of the executive's base salary; and
- In the event of the executive's death, six months of salary, a pro-rata bonus for the year of death and six months of bonus payments based on the higher of (i) the average bonus paid to the executive in each of the last three years, and

(ii) the bonus paid to the executive in the most recent 12 month period (annualized for any partial year payments).

The Company also agreed to pay both Ms. DiBattiste and Ms. Bucella 100% of their respective fiscal year 2014 target annual bonus amounts. Additionally, the Company provides both Ms. DiBattiste and Ms. Bucella with a furnished apartment in Pittsburgh, PA and reimbursement for reasonable weekly travel expenses to and from Pittsburgh, PA and tax gross-up payments, if applicable, until the earlier of April 30, 2015 (with respect to Ms. DiBattiste) or June 1, 2015 (with respect to Ms. Bucella) or the date such executive relocates to the metropolitan Pittsburgh, PA area.

Mr. Finuf executed a new employment agreement in June 2014 which includes the following material terms:

- An initial one-year term, with one-year automatic renewals unless terminated on 180 days' advance notice, provided that if we terminate the agreement effective upon expiration of the term with timely notice to Mr. Finuf, then such termination will be treated as a termination without cause under the employment agreement;
- An annual base salary which is reviewed annually, plus a target bonus based on a percentage of Mr. Finuf's annual salary;
- Employee benefits under the various benefit plans and programs we maintain for our employees;
- Participation in the EDMC equity plans;
- Monthly salary upon a termination without "cause" for a period of (i) six months if Mr. Finuf is terminated within the first 12 months after execution of the employment agreement, and (ii) 12 months if Mr. Finuf is terminated after the first 12 months after execution of the employment agreement for 12 months; provided, however, that Mr. Finuf will receive a lump sum payment equal to 24 months of salary and target bonus within 60 days after he is terminated without cause if the date of termination is in anticipation of or within two years following a change of control, as defined in the 2012 Plan;
- *"Cause"* means: (i) willful and continued failure to use Mr. Finuf's best efforts to perform his assigned duties; (ii) indictment for, conviction of, or entry of a plea of guilty or *nolo contendere* to, a felony or a misdemeanor involving moral turpitude; (iii) gross negligence causing material harm to our business or reputation; (iv) willful and material misconduct; (v) willful and material breach of fiduciary duty; (vi) willful and material breach of the restrictive covenants set forth in his agreement or any of our material written policies; or (vii) our discovery of information demonstrating that one or more of the items set forth in a declaration Mr. Finuf made to us was not truthful.
- Noncompetition, confidentiality and nonsolicitation restrictive covenants for a period of 12 months after termination of employment, except that such period last for 24 months for a specific competitor of ours;
- In the event of Mr. Finuf's disability, continuation of all compensation and benefits through the earlier to occur of the next anniversary of the date of the employment agreement or six months from the date he is permanently disabled, whichever is longer, provided that the obligation to pay the executive's base salary will be reduced by the amounts paid to the executive under any long-term disability insurance plan that we sponsor or otherwise maintain and that in no event will our total annual obligation for base salary payments to the executive be greater than an amount equal to two-thirds of the executive's base salary.

The time-vested stock option agreements entered into with each of our executive officers provide for additional vesting in the event that the executive is terminated without cause or resigns for good reason prior to the executive's time vested options becoming fully vested.

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Outstanding Equity Awards at June 30, 2014

The following table provides information regarding outstanding stock options and RSUs held by the Named Executive Officers at June 30, 2014.

	Option Awards					
	Option Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)(1)	Option Exercise Price ($)	Option Expiration Date
Edward H. West	8/14/2012	250,000	750,000 (3)	-	$ 3.20	8/14/2022
	9/13/2012	308,531 (4)	-	-	3.59	10/1/2019
	9/13/2012	201,923	67,307 (4)	-	3.59	9/30/2020
	9/13/2012	106,383	106,382 (4)	-	3.59	11/3/2021
	9/13/2012	-	-	205,432	3.59	8/1/2017
	9/13/2012	205,432 (2)	-	-	3.59	8/1/2017
	9/13/2012	-	-	30,405	3.59	6/28/2018
	9/13/2012	30,405 (2)	-	-	3.59	6/28/2018
	10/2/2012	250,000	750,000 (3)	-	3.03	10/02/2022
	11/8/2013	-	251,831 (4)	-	12.74	11/8/2023
Mick J. Beekhuizen	4/16/2013	237,501	712,499 (5)	-	4.74	4/16/2023
	11/8/2013	-	73,260 (4)	-	12.74	11/8/2023
Carol A. DiBattiste	4/16/2013	17,500	52,500 (4)	-	4.74	4/16/2023
	11/8/2013	-	91,575 (4)	-	12.74	11/8/2023
Danny D. Finuf	9/13/2012	43,269	14,423 (4)	-	3.59	9/30/2020
	9/13/2012	24,823	24,822 (4)	-	3.59	11/3/2021
	9/13/2012	27,772 (2)	-	-	3.59	12/5/2017
	9/13/2012	-	-	27,772	3.59	12/5/2017
	9/13/2012	15,426 (4)	-	-	3.59	10/1/2019
	9/13/2012	-	-	4,111	3.59	6/28/2018
	9/13/2012	4,109 (2)	-	-	3.59	6/28/2018
	11/02/2012	31,250	93,750 (4)	-	3.30	11/02/2022
	6/11/2013	25,000	75,000 (4)	-	7.03	6/11/2023
	11/8/2013	-	54,945 (4)	-	12.74	11/8/2023
Donna A. Bucella	6/11/2013	12,500	37,500 (4)	-	7.03	6/11/2023
	11/8/2013	-	27,472 (4)	-	12.74	11/8/2023

	Stock Awards				
	Grant Date	Number of Shares or Units of Stock that Have Not Vested(6)	Market Value of Units or Shares of Stock that Have Not Vested ($)(7)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested
Edward H. West	11/8/2013	64,756	$ 109,438	-	-
Mick J. Beekhuizen	11/8/2013	18,838	31,836	-	-
Carol A. DiBattiste	4/16/2013	18,750	31,688	-	-
	11/8/2013	23,547	39,794		
Danny D. Finuf	11/2/2012	37,500	63,375	-	-
	11/8/2013	14,128	23,876		
Donna A. Bucella	6/11/2013	20,000	33,800	-	-
	11/8/2013	7,064	11,938		

(1) Represents performance-vested stock options that vest based on the greater of (i) the cumulative number of shares sold by the Principal Shareholders as a percentage of all shares purchased by the Principal Shareholders in connection with the Transaction, and (ii) the attainment of the specified returns on invested capital in EDMC by the Principal Shareholders.

(2) Represents time-based stock options which vest over a five-year period from the date of grant, with 20% vesting on the first anniversary of the date of grant and 20% vesting on each of the next four anniversaries of the date of grant.

(3) Represents time-based stock options which vest over a four-year period from the date of grant, with 25% vesting on the first anniversary of the date of grant and 25% vesting on each of the next three anniversaries of the date of grant; provided, however, that Mr. West may only sell the shares acquired through exercise of the stock option prior to the eighth anniversary of the date of grant on a *pro rata* basis based on sales of shares held by the Principal Shareholders on the grant date.

(4) Represents time-based stock options which vest over a four-year period, with 25% vesting on the first anniversary of the date of grant and 25% vesting on each of the next three anniversaries of the date of grant.

(5) Represents time-based stock options which vest over a four-year period from the date of grant, with 25% vesting on the first anniversary of the date of grant and 25% vesting on each of the next three anniversaries of the date of grant; provided, however, that with respect to two-thirds of the stock option grant, Mr. Beekhuizen may only sell the shares acquired through exercise of the stock option prior to the eighth anniversary of the date of grant on a *pro rata* basis based on sales of shares held by the Principal Shareholders on the grant date.

(6) Represents time-based RSU grants which vest over a four-year period, with 25% vesting on the first anniversary of the date of grant and 25% vesting on each of the next three anniversaries of the date of grant, except in the case of (i) 20,000 RSUs granted to Ms. Bucella on June 11, 2013, which vest on September 15, 2014.

(7) Unvested RSUs are valued at $1.69 per share of common stock, the closing price of EDMC's common stock on June 30, 2014.

Options Exercised and Stock Vested during the Fiscal Year Ended June 30, 2014

None of the Named Executive Officers exercised any stock options during fiscal 2014.

Pension Benefits

None of the Named Executive Officers receive pension benefits.

Nonqualified Deferred Compensation

The following table sets forth the nonqualified deferred compensation received by the Named Executive Officers during fiscal 2014.

	Aggregate Balance at 6/30/13 ($)	Executive Contributions in Fiscal 2014 ($)	Registrant Contributions in Fiscal 2014 ($)*	Aggregate Earnings in Fiscal 2014 ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at 6/30/14 ($)
Edward H. West	525,760	-	54,098	49,373	-	629,231
Mick J. Beekhuizen	-	-	-	-	-	-
Carol A. DiBattiste	-	30,250	-	1,389	-	31,639
Danny D. Finuf	-	-	-	160	-	-
Donna A. Bucella	-	11,250	-	517	-	11,767

* The amounts in this column are reported as compensation in the All Other Compensation column of the Summary Compensation Table.

We have a nonqualified deferred compensation plan for key executives, officers and certain other employees to allow compensation deferrals in addition to the amounts that may be deferred under the 401(k) plan. Participants in the deferred compensation plan may defer up to 100% of their annual cash compensation. While we do not match any portion of a participant's contribution to the deferred compensation plan, participants who do not receive the full employer match on their contribution to the 401(k) plan due to Internal Revenue Code limitations on individual contributions to the 401(k) plan may have the matching contribution they would have received absent the Internal Revenue Code limitation contributed to the deferred compensation plan on their behalf. During fiscal 2014, we matched 100% of employee contributions to the 401(k) plan for up to 6% of compensation. The investment options available in the deferred compensation plan are similar to those offered in the 401(k) plan, except that one managed investment fund available to participants in the 401(k) plan is not an investment option for the deferred compensation plan and one managed investment fund available to participants in the deferred compensation plan is not available to 401(k) plan participants. Plan benefits are paid from our assets.

Potential Payments Upon Termination or Change in Control

This section describes payments that may be made to the Company's Named Executive Officers upon several events of termination, including termination in connection with a change in control, assuming the termination event occurred on June 30, 2014 (except as otherwise noted). All payments to an executive described below are conditioned on the executive's execution, delivery and non-revocation of a valid and enforceable general release of claims.

We may terminate the employment agreements with each of the Named Executive Officers with or without cause and the executive may resign in each case, other than a termination for cause, upon 30 days' advance written notice to the other party. Upon an eligible termination for any reason, the executive will continue to receive payment of any base salary earned but unpaid through the date of termination and any other payment or benefit to which he is entitled under the applicable terms of any applicable company arrangements. If the executive is terminated for cause or if the executive terminates his employment other than for good reason, any annual bonus earned will be forfeited.

The terms "cause" and "good reason" for each executive employment agreement are described above under "Employment Agreements."

The term "change in control" for each executive employment agreement generally means a transaction or occurrence immediately following which the Principal Shareholders, in the aggregate, cease to beneficially own securities of the Company representing a majority of the outstanding voting power entitled generally to vote for the election of directors.

Other material terms of the employment agreements with the Named Executive Officers addressing payments upon termination or a change of control are as follows:

Edward H. West

If Mr. West is terminated by the Company other than for cause, or if Mr. West terminates his employment with good reason, then Mr. West is entitled to a lump sum severance payment of (i) one and one-half times (or three times if the date of termination is in anticipation of or within two years following a change in control) the sum of Mr. West's base salary plus the target annual bonus, and (ii) a pro-rated annual bonus based on his actual annual bonus. Mr. West is also entitled to reimbursement for COBRA premiums, in the amount of COBRA premiums charged to Mr. West minus the amount charged to actively employed senior executives for like coverage not to exceed 18 months.

In addition, the West Agreement will terminate prior to its scheduled expiration date in the event of death or disability. In the event of Mr. West's death during the employment term, we will continue to pay his base salary for a period of six months following the date of his death and any other payment or benefit to which he is entitled under the applicable terms of any applicable company arrangements in addition to a pro-rated annual bonus payment based on his target annual bonus for the year of such termination and an amount equal to one-twelfth of his average annual bonus paid with respect to the most recent three fiscal years or, if greater, the most recent twelve month period, for each of the six months following such termination. In the event of the disability of Mr. West, his employment agreement will not terminate until the anniversary date of the agreement next following the date that he is determined to be disabled. For the period from the date Mr. West is determined to be disabled through the earlier of the next anniversary date of the date of the employment agreement or the date of his death, we will continue to provide him all compensation and benefits provided for under the agreement, provided that our obligation to pay Mr. West's base salary will be reduced by the amounts paid to him under any long-term disability insurance plan and our total annual obligation for his base salary will not exceed two-thirds of his base salary.

Mick J. Beekhuizen

If Mr. Beekhuizen is terminated by the Company other than for cause, or if Mr. Beekhuizen terminates his employment with good reason, then Mr. Beekhuizen is entitled to a lump sum severance payment of (i) one and one-half times (or two times if the date of termination is in anticipation of or within two years following a change in control) the sum of Mr. Beekhuizen's base salary plus the target annual bonus, and (ii) a pro-rated annual bonus based on his actual annual bonus. Mr. Beekhuizen is also entitled to reimbursement for COBRA premiums, in the amount of COBRA premiums charged to Mr. Beekhuizen minus the amount charged to actively employed senior executives for like coverage not to exceed 18 months.

In addition, the Beekhuizen Agreement will terminate prior to its scheduled expiration date in the event of death or disability. In the event of Mr. Beekhuizen's death during the employment term, we will continue to pay his base salary for a period of six months following the date of his death and any other payment or benefit to which he is entitled under the applicable terms of any applicable company arrangements in addition to a pro-rated annual bonus payment based on his target annual bonus for the year of such termination and an amount equal to one-twelfth of his average annual bonus paid with respect to the most recent three fiscal years or, if greater, the most recent twelve month period, for each of the six months following such termination. In the event of the disability of Mr. Beekhuizen, his employment agreement will not terminate until the anniversary date of the agreement next following the date that he is determined to be disabled. For the period from the date Mr. Beekhuizen is determined to be disabled through the earlier of the next anniversary date of the date of the employment agreement or the date of his death, we will continue to provide him all compensation and benefits provided for under the agreement, provided that our obligation to pay Mr. Beekhuizen's base salary will be reduced by the amounts paid to him under any long-term disability insurance plan and our total annual obligation for his base salary will not exceed two-thirds of his base salary. Additionally, Mr. Beekhuizen's annual bonus due for fiscal year (or years) in which all or a portion of his disability occurs shall not be reduced on account of his absence from active service due to his disability from what otherwise may be earned and payable to him.

Agreements with Mr. Finuf, Ms. DiBattiste, and Ms. Bucella

If Ms. DiBattiste or Ms. Bucella is terminated by the Company other than for cause, or if either executive terminates her employment with good reason, then the executive is entitled to severance payment of (i) one times (or two times if the termination is in anticipation of or within two years following a change in control) the sum of the executive's base salary plus the target annual bonus, and (ii) a pro-rated annual bonus based on his target annual bonus. If Mr. Finuf is terminated by the Company other than for cause, then he is entitled to six months of his base salary if the termination occurs prior to June 23, 2015 and one year of his base salary if the termination occurs on or after such date. Severance payments are made on a monthly basis except in the event of a termination in anticipation of or within two years following a change of control, in which case the payment will be made in a lump sum. Each executive is also entitled to continuation of welfare benefits minus the amount charged to actively employed senior executives for like coverage for the period he or she receives severance payments not to exceed twelve months.

In addition, the employment agreements with Mr. Finuf, Ms. DiBattiste and Ms. Bucella will terminate prior to their respective scheduled expiration date in the event of death or disability. In the event of the death of Ms. DiBattiste or Ms. Bucella during the employment term, we will continue to pay to the executive's designee or her estate the executive's base salary and pro rata target annual bonus for a period of six months in addition to a pro-rated annual bonus payment based on her target annual bonus for the year of such termination. In the event of the disability of Mr. Finuf, Ms. DiBattiste or Ms. Bucella, the employment agreement will not terminate until the anniversary date of the agreement next following the date that the executive is determined to be disabled, provided that in the case of Mr. Finuf, such termination shall not occur for at least six months after he is determined to be disabled. For the period from the date the executive is determined to be disabled through (i) the earlier of the next anniversary date of the date of the employment agreement or the date of the executive's death with respect to Ms. DiBattiste and Ms. Bucella or (ii) the longer of the next anniversary date of the date of the employment agreement or six months from the date of disability with respect to Mr. Finuf, we will continue to provide the executive all compensation and benefits provided for under the agreement, provided that our obligation to pay the executive's base salary will be reduced by the amounts paid to the executive under any long-term disability insurance plan and our total annual obligation for the executive's base salary will not exceed two-thirds of the executive's base salary.

Table of Benefits Upon Termination Events

The following tables show potential payments to the Named Executive Officers upon termination of employment assuming a June 30, 2014 termination date. In connection with the amounts shown in the table, stock option benefit amounts for each option as to which vesting will be accelerated upon the occurrence of the termination event is equal to the product of the number of shares underlying the option multiplied by the difference between the exercise price per share of the option and the market value of the stock on June 30, 2014.

Edward H. West

	Without Cause or For Good Reason	For Cause or Without Good Reason	Change in Control or Sale of Business(1)	Disability	Death
Compensation:					
Base Salary and Target Bonus	$ 2,868,750 (2)	$ —	$ 5,737,500 (3)	$ 1,629,167	$ 610,813
Target Bonus in Year of Termination	1,062,500	—	1,062,500	—	1,602,500
Stock Options(4)	—	—	—	—	—
Restricted Stock(4)	27,359	—	109,438	—	—
Benefits and Perquisites:					
Health and Welfare Benefits(5)	11,414	—	11,414	11,414	—
Outplacement Services	—	—	—	—	—
Life Insurance Proceeds	—	—	—	—	500,000
Disability Benefits		—			—
Accrued Vacation Pay	—	—	—	—	—
Excise Tax and Gross-Up	—	—	—	—	—
Total:	$ 3,970,023	$ —	$ 6,920,852	$ 1,640,581	$ 2,713,313

(1) Applicable if Mr. West is terminated without cause or terminates his employment for good reason in anticipation of or within two years after the occurrence of a change in control. The transactions contemplated by the RSA would constitute a change in control under Mr. West's employment agreement.

(2) Consists of one and one-half times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(3) Consists of three times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus. The West Agreement was amended effective October 2, 2012 to, among other matters, provide for a payment equal to three times, rather than two times, such amount.

(4) Assumes fair market value of $1.69 per share, the closing price of our stock on June 30, 2014.

(5) Amount equals the Company's estimated expense of providing Mr. West with COBRA health insurance benefits for 18 months after termination.

Mick J. Beekhuizen

	Without Cause or For Good Reason		For Cause or Without Good Reason	Change in Control or Sale of Business(1)		Disability	Death
Compensation:							
Base Salary and Target Bonus	$ 1,687,500	(2)	$ —	$ 2,250,000	(3)	$ 958,333	$ 250,000
Target Bonus in Year of Termination	625,000		—	625,000		—	625,000
Stock Options(4)	—		—	—		—	—
Restricted Stock(4)	7,959		—	31,836		—	—
Benefits and Perquisites:							
Health and Welfare Benefits(5)	12,516		—	12,516		12,516	—
Outplacement Services	—		—	—		—	—
Life Insurance Proceeds	—		—	—		—	500,000
Disability Benefits	—		—	—		—	—
Accrued Vacation Pay	—		—	—		—	—
Excise Tax and Gross-Up	—		—	—		—	—
Total:	$ 2,332,975		$ —	$ 2,919,352		$ 970,849	$ 1,375,000

(1) Applicable if Mr. Beekhuizen is terminated without cause or terminates his employment for good reason in anticipation of or within two years after the occurrence of a change in control. The transactions contemplated by the RSA would constitute a change in control under Mr. Beekhuizen's employment agreement.

(2) Consists of one and one-half times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(3) Consists of two times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(4) Assumes fair market value of $1.69 per share, the closing price of our stock on June 30, 2014.

(5) Amount equals the Company's estimated expense of providing Mr. Beekhuizen with COBRA health insurance benefits for 18 months after termination.

Carol A. DiBattiste

	Without Cause or For Good Reason		For Cause or Without Good Reason	Change in Control or Sale of Business(1)		Disability		Death	
Compensation:									
Base Salary and Target Bonus	$ 1,089,000	(2)	$ —	$ 2,178,000	(3)	$ 887,333	(4)	$ 544,500	(5)
Target Bonus in Year of Termination	484,000		-	484,000		-		484,000	
Stock Options (6)	-		-	-		-		-	
Restricted Stock(6)	17,870		-	71,482		-		-	
Benefits and Perquisites:									
Health and Welfare Benefits(7)	8,169		-	8,169		8,169		-	
Outplacement Services	15,000		-	15,000		-		-	
Life Insurance Proceeds	-		-	-		-		500,000	
Disability Benefits	-		-	-		-		-	
Accrued Vacation Pay	-		-	-		-		-	
Excise Tax and Gross-Up	-		-	-		-		-	
Total:	$ 1,614,039		$ —	$ 2,756,651		$ 895,502		$ 1,528,500	

(1) Applicable if Ms. DiBattiste is terminated without cause or terminates her employment for good reason in anticipation of or within two years after the occurrence of a change in control. The transactions contemplated by the RSA would constitute a change in control under Ms. DiBattiste's employment agreement.

(2) Consists of the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(3) Consists of two times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(4) Consists of the sum of (i) two-thirds of Ms. DiBattiste's base salary for fiscal 2014 and (ii) fiscal 2014 target incentive bonus.

(5) Consists of the sum of one-half of (i) Ms. DiBattiste's fiscal 2014 base salary and (ii) the greater of one-twelfth of her fiscal 2014 target incentive bonus and the average bonus she received in the three most recent fiscal years for six months.

(6) Assumes fair market value of $1.69 per share, the closing price of our stock on June 30, 2014.

(7) Amount equals the Company's estimated expense of providing Ms. DiBattiste with COBRA health insurance benefits for twelve months after termination.

Danny D. Finuf

	Without Cause or For Good Reason		For Cause or Without Good Reason	Change in Control or Sale of Business(1)		Disability		Death	
Compensation:									
Base Salary and Target Bonus	$ 900,000	(2)	$ —	$ 1,800,000	(3)	$ 750,000	(4)	$ 305,057	(5)
Target Bonus in Year of Termination	450,000		-	450,000		-		450,000	
Stock Options and RSUs(6)	-		-	-		-		-	
Restricted Stock(4)	21,813		-	87,251		-		-	
Benefits and Perquisites:									
Health and Welfare Benefits(7)	5,339		-	5,339		5,339		-	
Outplacement Services	15,000		-	15,000		-		-	
Life Insurance Proceeds	-		-	-		-		500,000	
Disability Benefits	-		-	-		-		-	
Accrued Vacation Pay	-		-	-		-		-	
Excise Tax and Gross-Up	-		-	-		-		-	
Total:	$ 1,392,152		$ —	$ 2,357,590		$ 755,339		$ 1,255,057	

(1) Applicable if Mr. Finuf is terminated without cause or terminates his employment for good reason in anticipation of or within two years after the occurrence of a change in control. The transactions contemplated by the RSA would constitute a change in control under Mr. Finuf's employment agreement.

(2) Consists of the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(3) Consists of two times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(4) Consists of the sum of (i) two-thirds of Mr. Finuf's base salary for fiscal 2014 and (ii) fiscal 2014 target incentive bonus.

(5) Consists of the sum of one-half of (i) Mr. Finuf's fiscal 2014 base salary and (ii) the greater of one-twelfth of his fiscal 2014 target incentive bonus and the average bonus he received in the three most recent fiscal years for six months.

(6) Assumes fair market value of $1.69 per share, the closing price of our stock on June 30, 2014.

(7) Amount equals the Company's estimated expense of providing Mr. Finuf with health and welfare benefits for twelve months after termination.

Donna A. Bucella

	Without Cause or For Good Reason		For Cause or Without Good Reason	Change in Control or Sale of Business(1)		Disability		Death	
Compensation:									
Base Salary and Target Bonus	$ 637,500	(2)	$ —	$ 1,275,000	(3)	$ 512,500	(4)	$ 318,750	(5)
Target Bonus in Year of Termination	262,500		-	262,500		-		262,500	
Stock Options(6)	-		-	-		-		-	
Restricted Stock(6)	11,435		-	45,738		-		-	
Benefits and Perquisites:									
Health and Welfare Benefits(7)	14		-	14		14		-	
Outplacement Services	15,000		-	15,000		-		-	
Life Insurance Proceeds	-		-	-		-		500,000	
Disability Benefits	-		-	-		-		-	
Accrued Vacation Pay	-		-	-		-		-	
Excise Tax and Gross-Up	-		-	-		-		-	
Total:	$ 926,449		$ —	$ 1,598,252		$ 512,514		$ 1,081,250	

(1) Applicable if Ms. Bucella is terminated without cause or terminates her employment for good reason in anticipation of or within two years after the occurrence of a change in control. The transactions contemplated by the RSA would constitute a change in control under Ms. Bucella's employment agreement.

(2) Consists of the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(3) Consists of two times the sum of (i) fiscal 2014 base salary, and (ii) fiscal 2014 target incentive bonus.

(4) Consists of the sum of (i) two-thirds of Ms. Bucella's base salary for fiscal 2014 and (ii) fiscal 2014 target incentive bonus.

(5) Consists of the sum of one-half of (i) Ms. Bucella's fiscal 2014 base salary and (ii) the greater of one-twelfth of her fiscal 2014 target incentive bonus and the average bonus he received in the three most recent fiscal years for six months.

(6) Assumes fair market value of $1.69 per share, the closing price of our stock on June 30, 2014.

(7) Amount equals the Company's estimated expense of providing Ms. Bucella with health and welfare benefits for twelve months after termination.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Compensation Committee, during fiscal 2014 or as of the date of this Form 10-K, is or has been an officer or employee of the Company, and no executive officer of the Company served on the Compensation Committee or board of any company that employed any member of the Compensation Committee or the Board.

NON-EMPLOYEE DIRECTOR COMPENSATION FOR FISCAL 2014

The following table sets forth information concerning the compensation earned by the non-employee directors for fiscal 2014. Directors who are also employees of the Company do not receive any consideration for their service on the Board. A discussion of the elements of non-employee director compensation follows the table.

	Fees Earned or Paid in Cash(1)	Stock Awards(2)
William R. Johnson	$ 49,000	$ 250,000
Samuel C. Cowley	52,000	100,000
Adrian M. Jones	52,000	100,000
Jeffrey T. Leeds	53,500	100,000
John R. McKernan, Jr.(3)	52,000	100,000
Leo F. Mullin	63,500	100,000
Brian A. Napack	53,500	100,000
Todd S. Nelson(4)	—	—
Paul J. Salem	53,500	100,000
Peter O. Wilde	52,000	100,000

(1) Represents the amount of cash compensation earned by each non-employee director in fiscal 2014, including an annual retainer which all directors except for Messrs. Johnson, Leeds, McKernan and Mullin elected to receive in shares of our common stock.

(2) Represents the grant date fair value of the annual grant of restricted shares of our common stock made to each non-employee director in fiscal 2014. As of June 30, 2014, Mr. Johnson held 19,623 restricted shares of our common stock and all other non-employee directors held 7,849 restricted shares of our common stock. The restrictions on the directors' restricted shares will lapse on November 8, 2014.

(3) Mr. McKernan's employment agreement expired on June 1, 2012, at which point he became a non-employee director.

(4) Mr. Nelson did not receive compensation as director in fiscal 2014.

Pursuant to a compensation plan for non-employee directors adopted by the Compensation Committee in September 2013, all non-employee directors receive an annual retainer of $40,000 and a fee of $1,500 for each meeting they attend. The non-management chair of the Audit Committee receives an additional $10,000 fee retainer. The annual retainers are payable at the director's option either 100% in cash or 100% in shares of our common stock. In addition, our Chairman receives an annual restricted share award with a grant date fair market value of $250,000 and all non-employee directors receive an annual restricted share award with a grant date fair market value of $100,000. The restricted share grants vest on the first anniversary of the grant date. Our Chairman also receives a stock option grant equal in value to $300,000 when he or she is initially elected as Chairman, which grant vests over a four year period, with 25% vesting on the first four anniversaries of the date of grant. No separate committee meeting fees are paid.

All directors are reimbursed for reasonable travel and lodging expenses incurred by them in connection with attending board and committee meetings.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information regarding the beneficial ownership of our equity securities as of October 1, 2014 by each person who is known by us to beneficially own more than five percent of our equity securities, by each of our directors, by each of our President and Chief Executive Officer, our Executive Vice President and Chief Financial Officer, and our three other most highly compensated executive officers, whom we collectively refer to as our named executive officers (the "Named Executive Officers"), and by all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Owned	Percentage of Outstanding Shares Owned
Providence Equity Funds(2)	40,906,177	32.4%
GS Limited Partnerships(3)(4)	40,847,599	32.4%
Goldman Sachs EDMC Investors, L.P.(4)	7,157,920	5.7%
GS Private Equity Partners Funds(5)	6,291,475	5.0%
Leeds Equity Partners(6)	9,902,163	7.9%
Mick J. Beekhuizen(7)	260,525	*
Donna A. Bucella(8)	34,300	*
Samuel C. Cowley(9)	54,151	*
Carol A. DiBattiste(10)	181,936	*
Danny D. Finuf(11)	274,845	*
William R. Johnson(9)(12)	24,529	*
Adrian M. Jones(4)(5)(9)	48,062,464	38.1%
Jeffrey T. Leeds(6)(9)	9,953,960	7.9%
John R. McKernan, Jr.(9)(13)	702,501	*
Leo F. Mullin(9)	103,378	*
Brian A. Napack(9)	39,777	*
Paul J. Salem(2)(9)	40,875,255	32.4%
Edward H. West(14)	2,097,056	1.7%
Peter O. Wilde(2)(9)	40,875,255	32.4%
All executive officers and directors as a group (21 persons)(15)	103,487,383	79.9%

* Less than 1%.

(1) The address of each listed shareholder, unless otherwise noted, is c/o Education Management Corporation, 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania 15222.

(2) Consists of (i) 32,317,772 shares of common stock held by Providence Equity Partners V L.P. ("PEP V"), whose general partner is Providence Equity GP V L.P., whose general partner is Providence Equity Partners V L.L.C. ("PEP V LLC"); (ii) 5,104,728 shares of common stock held by Providence Equity Partners V-A L.P. ("PEP V-A"), whose general partner is Providence Equity GP V L.P., whose general partner is PEP V LLC; (iii) 2,675,590 shares of common stock held by Providence Equity Partners IV L.P. ("PEP IV"), whose general partner is Providence Equity GP IV L.P., whose general partner is Providence Equity Partners IV L.L.C. ("PEP IV LLC"), (iv) 8,629 shares of common stock held by Providence Equity Operating Partners IV L.P. ("PEOP IV" and collectively with PEP IV, PEP V and PEP V-A, the "Providence Equity Funds") whose general partner is Providence Equity GP IV L.P., whose general partner is PEP IV LLC, (v) 740,880 shares of common stock owned by PEP EDMC L.L.C., and (vi) 58,578 shares owned by Providence Equity Partners L.L.C. PEP V LLC may be deemed to share beneficial ownership of the shares owned by PEP V and PEP V-A. PEP V LLC disclaims this beneficial ownership. PEP IV LLC may be deemed to share the beneficial ownership of PEP IV and PEOP IV. PEP IV LLC disclaims this beneficial ownership. Mr. Salem is a member of PEP V LLC and PEP IV LLC and may also be deemed to possess indirect beneficial ownership of the securities owned by the Providence Equity Funds, but disclaims such beneficial ownership due to a Nominee Agreement with Providence Equity Partners L.L.C. PEP EDMC L.L.C. may be deemed to share beneficial ownership with PEP V, PEP V-A, PEP IV and PEOP IV. PEP EDMC L.L.C. disclaims this beneficial ownership. Mr. Wilde is a limited partner of Providence Equity GP IV L.P. and Providence Equity Partners GP V L.P. and disclaims beneficial ownership of any securities owned by such limited partnerships due to a Nominee Agreement with Providence Equity Partners L.L.C. The address of Mr. Salem, Mr. Wilde and each of the entities listed in this footnote is c/o Providence Equity Partners Inc., 50 Kennedy Plaza, 18th Floor, Providence, Rhode Island 02903.

(3) Consists of 21,118,597 shares owned by GS Capital Partners V Fund, L.P., 10,908,983 shares owned by GS Capital Partners V Offshore Fund, L.P., 7,241,855 shares owned by GS Capital Partners V Institutional, L.P., 837,284 shares owned by GS Capital Partners V GmbH & Co. KG, and 740,880 shares owned by GSCP V EDMC Holdings, L.P. (collectively, the "Goldman Sachs Capital Partners Funds").

(4) The Goldman Sachs Group, Inc. and certain affiliates, including Goldman, Sachs & Co., may be deemed to directly or indirectly own the 48,005,519 shares of common stock which are collectively owned directly or indirectly by the Goldman Sachs Capital Partners Funds and Goldman Sachs EDMC Investors, L.P., of which affiliates of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. are the general partner, managing limited partner or the managing partner. Goldman, Sachs & Co. is the investment manager for certain of the Goldman Sachs Capital Partner Funds and Goldman Sachs EDMC Investors, L.P. Goldman, Sachs & Co. is a direct and indirect wholly-owned subsidiary of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and the Goldman Sachs Capital Partner Funds and Goldman Sachs EDMC Investors, L.P. share voting power and investment power with certain of their respective affiliates. Adrian M. Jones is a managing director of Goldman, Sachs & Co. Each of Mr. Jones, The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the Goldman Sachs Capital Partners Funds and Goldman Sachs EDMC Investors, L.P., except to the extent of their pecuniary interest therein, if any. The address of the Goldman Sachs Capital Partner Funds, The Goldman Sachs Group, Inc., Goldman, Sachs & Co., and Mr. Jones is 200 West Street, 28th Floor, New York, New York 10282.

(5) Consists of 1,914,410 shares owned by GS Private Equity Partners 2000, L.P., 673,853 shares owned by GS Private Equity Partners 2000 Offshore Holdings, L.P., 743,493 shares owned by GS Private Equity Partners 2000 - Direct Investment Fund, L.P., 266,883 shares owned by GS Private Equity Partners 2002, L.P., 1,027,938 shares owned by GS Private Equity Partners 2002 Offshore Holdings, L.P., 231,963 shares owned by GS Private Equity Partners 2002 - Direct Investment Fund, L.P., 118,014 shares owned by GS Private Equity Partners 2002 Employee Fund, L.P., 83,004 shares owned by Goldman Sachs Private Equity Partners 2004, L.P., 539,998 shares owned by Goldman Sachs Private Equity Partners 2004 Offshore Holdings, L.P., 154,772 shares owned by Multi-Strategy Holdings, L.P., 372,983 shares owned by Goldman Sachs Private Equity Partners 2004 - Direct Investment Fund, L.P., 135,863 shares owned by Goldman Sachs Private Equity Partners 2004 Employee Fund, L.P. and 28,301 shares owned by The Goldman Sachs Group, Inc. (collectively, the "GS Private Equity Partners Funds"). The Goldman Sachs Group, Inc., and certain of its affiliates, including Goldman Sachs Asset Management, L.P., may be deemed to directly or indirectly own the shares of common stock which are owned by the GS Private Equity Partners Funds, of which affiliates of The Goldman Sachs Group, Inc. and Goldman Sachs Asset Management, L.P. are the general partner, managing limited partner or the managing partner. Goldman Sachs Asset Management, L.P. is the investment manager for certain of the GS Private Equity Partners Funds. Goldman Sachs Asset Management, L.P. is a direct and indirect wholly-owned subsidiary of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc., Goldman Sachs Asset Management, L.P. and the GS Private Equity Partners Funds share voting power and investment power with certain of their respective affiliates. Each of The Goldman Sachs Group, Inc. and Goldman Sachs Asset Management, L.P. disclaims beneficial ownership of the common shares owned directly or indirectly by the GS Private Equity Partners Funds except to the extent of their pecuniary interest therein, if any. The address of Goldman Sachs Asset Management, L.P. and the GS Private Equity Partner Funds is 200 West Street, 28th Floor, New York, New York 10282.

(6) Consists of 9,299,234 shares owned by Leeds Equity Partners IV, L.P., 583,679 shares owned by Leeds Equity Partners IV Co-Investment Fund A, L.P., and 19,250 shares owned by Leeds Equity Partners IV Co-Investment Fund B, L.P. (collectively, the "Leeds Equity Partners IV Funds"). The general partner of the Leeds Equity Partners IV Funds is Leeds Equity Associates IV, L.L.C. Jeffrey T. Leeds, a Director of the Company, is the Managing Member of Leeds Equity Associates IV, L.L.C. Mr. Leeds disclaims beneficial ownership of any securities owned by the Leeds Equity Partners IV Funds except to the extent of any pecuniary interest therein. The address of the Leeds Equity Partners IV Funds, Leeds Equity Associates IV, L.L.C. and Mr. Leeds is 350 Park Avenue, 23rd Floor, New York, New York 10022.

(7) Includes 255,815 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 4,710 RSUs which vest within 60 days of the date of the table set forth above.

(8) Includes 19,368 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 1,766 RSUs which vest within 60 days of the date of the table set forth above.

(9) Includes RSUs which vest within sixty days of the date of the table set forth above, shares of common stock initially issued as RSUs for which the restrictions have lapsed and, for directors other than Messrs. Johnson and McKernan, shares of common stock issued to the director in lieu of a cash retainer, if the director chose to receive his retainer in the form of shares of common stock instead of cash, in each case issued as compensation for serving as a director. Messrs. Salem and Wilde each hold 7,849 RSUs and 19,807 shares of common stock for the benefit of the Providence Equity Funds and disclaim beneficial ownership of such shares. Mr. Jones holds 49,096 shares of common stock and 7,849 RSUs for the benefit of The Goldman Sachs Group, Inc. and disclaims beneficial ownership of such shares.

(10) Includes 40,394 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 5,887 RSUs which vest within 60 days of the date of the table set forth above.

(11) Includes 243,469 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 16,032 RSUs which vest within 60 days of the date of the table set forth above.

(12) Includes 4,906 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above.

(13) Includes 409,564 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above.

(14) Includes 2,036,130 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 16,189 RSUs which vest within 60 days of the date of the table set forth above.

(15) Includes 3,449,946 shares of common stock receivable upon the exercise of options that are exercisable within 60 days of the date of the table set forth above and 168,178 RSUs which vest within 60 days of the date of the table set forth above.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

General

Our Audit Committee is responsible under its charter for the review, approval or ratification of "related-person transactions" between us or our subsidiaries and related persons. Prior to our initial public offering, the Board of Directors reviewed and approved transactions with related persons. "Related person" refers to a person or entity who is, or at any point since the beginning of the last fiscal year was, a director, officer, nominee for director or five percent shareholder of us, and their immediate family members. The Audit Committee does not have a written policy regarding the approval of related person transactions. The Audit Committee applies its review procedures as a part of its standard operating procedures. In the course of its review and approval or ratification of a related person transaction, the Audit Committee will consider:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including the amount involved and type of transaction;
- the importance of the transaction to the related person and to us;
- whether the transaction would impair the judgment of a director or executive officer to act in our best interest and the best interest of our shareholders; and
- any other matters the Audit Committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote on the approval or ratification of the transaction. However, such a director may be counted in determining the presence of a quorum at a meeting of the Audit Committee at which the transaction is considered. During fiscal 2014, no related person engaged in a transaction with the Company exceeding $120,000, except as discussed below.

We do business with two companies affiliated with Leeds Equity Partners, one of the Sponsors. We license student information system software from Campus Management Corp for which we paid licensing, maintenance and consulting fees of approximately $2.8 million in fiscal 2014. We also use PeopleScout, Inc., d/b/a StudentScout for contact management services when processing some of its inquiries from prospective students for which we paid servicing fees of approximately $0.9 million in fiscal 2014.

We also do business with several companies affiliated with Providence Equity Partners, one of the Sponsors. We purchased software and related supplies from CDW Corporation and its affiliates, the largest of which is CDW Government, for which we paid $4.4 million during fiscal 2014. We also use Assessment Technologies Institute, LLC for computer software that tests the skills of the Company's students in various academic fields for which we paid approximately $0.8 million during fiscal 2014. Finally, we engaged Kroll Ontrack for litigation management and electronic discovery document retention for which total fees paid approximated $5.2 million in fiscal 2014.

Shareholders Agreement

In connection with our initial public offering, certain of our shareholders, including the Sponsors, entered into a shareholders agreement, which we refer to as our "Shareholders Agreement," that provides for the rights of Sponsors to appoint members to our Board of Directors and contains certain provisions relating to transfer restrictions. Under the terms of the Shareholders Agreement, certain private equity funds affiliated with Providence Equity Partners and certain private equity funds affiliated with Goldman Sachs Capital Partners each have the right to appoint two members to our Board of Directors, and Leeds Equity Partners has the right to appoint one member to our Board of Directors. The respective rights of Providence Equity Partners and Goldman Sachs Capital Partners to appoint directors will be reduced to the right to appoint one director if such Sponsor's stock ownership drops below 10% of the outstanding shares of our common stock, and the right of each Sponsor to appoint directors will be eliminated if that Sponsor's stock ownership drops below 2% of the outstanding shares of our common stock. The Shareholders Agreement also contains provisions regarding drag-along rights, tag-along rights and other transfer restrictions.

Registration Rights Agreement

In connection with the Transaction, we entered into a registration rights agreement, which was subsequently joined by Leeds Equity Partners and certain management shareholders, with certain private equity funds affiliated with Providence Equity Partners and Goldman Sachs Capital Partners and certain other institutional investors. The registration rights agreement grants to these private equity funds the right, beginning 180 days following the completion of our initial public offering, to cause us, at our expense, to use our reasonable best efforts to register shares of common stock held by the private equity funds and any securities issued in replacement of or in exchange for such shares of common stock for public resale, subject to certain limitations. The exercise of this right will be limited to three requests by the private equity funds affiliated with each of Providence Equity Partners and Goldman Sachs Capital Partners. In the event that we register any of our common stock, these private equity funds and the other shareholders party to the registration rights agreement also have the right to require us to use our reasonable best efforts to include shares of our common stock held by them in such registration, subject to certain limitations, including as determined by the applicable underwriters. The registration rights agreement also provides for our indemnification of the shareholders party to that agreement and their affiliates in connection with the registration of their securities.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit, Audit-Related, Tax and All Other Fees

The following table shows the fees for professional audit services rendered by Ernst & Young LLP for the audit of our annual financial statements and review of our interim financial statements for fiscal 2014 and 2013, and fees for other services rendered by Ernst & Young LLP during fiscal 2014 and 2013.

	2014	2013
Audit Fees (*)	$ 3,607,000	$ 2,211,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	1,995	1,995
Total	$ 3,608,995	$ 2,212,995

(*) Audit Fees consist of the audit of the consolidated financial statements and quarterly reviews, regulatory audits and assistance with comment letters.

Pre-Approval of Audit and Non-Audit Services

Pursuant to the Audit Committee's Pre-Approval Policy and Procedure, the Audit Committee is required to pre-approve all audit and non-audit services provided by our independent registered public accounting firm. Under the Policy, in May of each year the Audit Committee is asked to pre-approve the engagement of the independent registered public accounting firm, and the projected fees, for audit services, audit-related services and tax services for the following fiscal year. Audit services include financial audits performed for financial statements filed with the U.S. Department of Education along with the audit work and other procedures performed on our system of internal controls over financial reporting. Audit-related services include services that are reasonably related to the review of our financial statements, such as consultations on accounting issues and due diligence procedures. Tax services include tax compliance, tax planning and tax advice. The term of any pre-approval applies to the Company's fiscal year and does not depend on when the work is completed.

The fee amounts pre-approved by the Audit Committee are updated to the extent necessary at the regularly scheduled meetings of the Audit Committee during the year. Additional pre-approval is required if the actual fees for any service are projected to exceed the pre-approved amount before we may commit to additional services.

If we want to engage our independent registered public accounting firm for other services that are not considered subject to general pre-approval as described above, then the Audit Committee must approve such specific engagement as well as the projected fees. Additional pre-approval is required before any fees can exceed those fees approved for any such specifically-approved services. The Chairman of the Audit Committee is authorized to approve on behalf of the Audit Committee additional services to be rendered by our independent registered public accounting firm up to a specific threshold where approval is required between meetings. The Chairman of the Audit Committee reports to the Committee any additional services he approved on behalf of the Committee at the Committee's next regularly scheduled meeting.

In fiscal 2014, there were no fees paid to Ernst & Young LLP under a de minimis exception to the rules that waives pre-approval for certain non-audit services.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements.

Reference is made to Item 8 herein.

(a)2. Financial Statement Schedules.

Reference is made to Item 8 herein.

(a)3. Exhibits.

Reference is made to the Index on page 147 herein

Schedules other than as listed above are omitted as not required or inapplicable or because the required information is provided in the consolidated financial statements, including the notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: October 16, 2014

EDUCATION MANAGEMENT CORPORATION

/s/ MICK J. BEEKHUIZEN

Mick J. Beekhuizen

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EDWARD H. WEST **Edward H. West**	President and Chief Executive Officer (Principal Executive Officer)	October 16, 2014
/s/ MICK J. BEEKHUIZEN **Mick J. Beekhuizen**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	October 16, 2014
/s/ ROBERT G. HRIVNAK **Robert G. Hrivnak**	Vice President and Chief Accounting Officer	October 16, 2014
/s/ JOHN R. MCKERNAN, JR. **John R. McKernan, Jr.**	Director	October 16, 2014
/s/ SAMUEL C. COWLEY **Samuel C. Cowley**	Director	October 16, 2014
/s/ ADRIAN M. JONES **Adrian M. Jones**	Director	October 16, 2014
/s/ JEFFREY T. LEEDS **Jeffrey T. Leeds**	Director	October 16, 2014
/s/ LEO F. MULLIN **Leo F. Mullin**	Director	October 16, 2014
/s/ BRIAN A. NAPACK **Brian A. Napack**	Director	October 16, 2014
/s/ PAUL J. SALEM **Paul J. Salem**	Director	October 16, 2014
/s/ PETER O. WILDE **Peter O. Wilde**	Director	October 16, 2014

Exhibit Index

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 6 to the Registration Statement on Form S-1 of Education Management Corporation (File No. 333-148259))
4.2	Indenture, dated as of March 5, 2013, among Education Management LLC, Education Management Finance Corp., the Guarantors named therein, and The Bank of New York Mellon Trust Company, N. A., as Trustee, governing the Senior Cash Pay/PIK Notes due 2018 (incorporated here by reference to Exhibit 10.1 of Current Report on Form 8-K of Education Management Corporation filed March 8, 2013)
4.3	Form of Senior Cash Pay/PIK Notes due 2018 (included as part of Exhibit 4.4)
4.4	Indenture, dated as of September 5, 2014, among Education Management LLC, Education Management Finance Corp., the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated here by reference to Exhibit 10.4 of Current Report on Form 8-K of Education Management Corporation filed September 10, 2014)
10.1	Amended and Restated Credit and Guaranty Agreement dated February 13, 2007 among Education Management LLC, Education Management Holdings LLC, certain Subsidiaries of Education Management Holdings LLC, the designated Subsidiary Borrowers referred to therein, each lender thereto, Credit Suisse Securities (USA) LLC, as Syndication Agent, and BNP Paribas, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on February 14, 2007)
10.2	First Amendment to Amended and Restated Credit and Guaranty Agreement dated March 23, 2009 by and among Education Management LLC, Education Management Holdings, LLC, Goldman Sachs Lending Partners LLC, J.P. Morgan Securities Inc. and BNP Paribas Securities Corp., as auction managers, BNP Paribas, as Administrative Agent and Issuing Bank, the guarantors listed on the signature papers thereto and the lenders listed on the signature papers thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management LLC filed on March 26, 2009)
10.3	Joinder Agreement, dated as of August 25, 2009, by and among each Joinder Lender listed therein, each Issuing Bank listed therein, Education Management LLC, Education Management Holdings LLC, the guarantors listed therein and BNP Paribas, as Administrative Agent (incorporated by reference to Exhibit 10.27 to Amendment No. 4 to the Registration Statement on Form S-1 of Education Management Corporation (File No. 333-148259))
10.4	Amendment and Restatement Agreement dated December 7, 2010 among Education Management LLC, Education Management Holdings LLC, certain Subsidiaries of Education Management Holdings LLC, the designated Subsidiary Borrowers referred to therein, each lender thereto, BNP Paribas (“BNP”), as Administrative Agent and Collateral Agent, and BNP, Bank of America, N.A., JPMorgan Chase Bank, N.A., and PNC Bank National Association, each as Issuing Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management Corporation filed on December 8, 2010)
10.4(a)*	Pledge and Security Agreement, dated as of June 1, 2006, among Grantors and BNP Paribas, as collateral agent
10.4(b)*	Schedules to Amendment and Restatement Agreement
10.5*	Waiver to Second Amended and Restated Credit and Guaranty Agreement, dated as of June 23, 2014, among Education Management LLC, Education Management Holdings LLC, certain subsidiaries party thereto and the Lenders party thereto
10.6	Restructuring Support Agreement, dated as of September 4, 2014, by and among Education Management Corporation and certain of its subsidiaries party thereto, the Consenting Creditors party thereto and the Consenting Shareholders party thereto (incorporated here by reference to Exhibit 10.1 of Current Report on Form 8-K of Education Management Corporation filed September 10, 2014)

Exhibit No.	Description
10.7	Amendment Agreement, dated as of September 5, 2014, by and among Education Management Corporation and certain of its subsidiaries party thereto, the Consenting Lenders party thereto and U.S. Bank National Association, as Administrative Agent and Collateral Agent (incorporated here by reference to Exhibit 10.2 of Current Report on Form 8-K of Education Management Corporation filed September 10, 2014)
10.8	Second Supplemental Indenture, dated as of September 5, 2014, among Education Management LLC, Education Management Finance Corp. and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated here by reference to Exhibit 10.3 of Current Report on Form 8-K of Education Management Corporation filed September 10, 2014)
10.9	Registration Rights Agreement, dated as of June 1, 2006, by and among EM Acquisition Corporation, GS Capital Partners V Fund, L.P., GS Capital Partners V Offshore Fund, L.P., GS Capital Partners V GmbH & Co. KG, GS Capital Partners V Institutional, L.P., Providence Equity Partners V L.P., Providence Equity Partners V-A L.P., Providence Equity Partners IV L.P., Providence Equity Operating Partners IV L.P. and the other shareholders that are signatory thereto (incorporated by reference to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form S-1 of Education Management Corporation (File No. 333-148259))
10.10	Shareholders' Agreement, dated as of October 7, 2009, by and among Education Management Corporation and each of the Shareholders named therein (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
10.11	Letter of Credit Facility Agreement, dated as of November 30, 2011, among Education Management LLC, Education Management Holdings LLC, Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Bank, and other parties thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management Corporation filed on December 1, 2011)
10.12	Amendment No. 1 dated as of January 29, 2013, to the Letter of Credit Facility Agreement dated as of November 30, 2011 among Education Management LLC, Education Management Holdings LLC, Bank of America N.A. as Administrative Agent, Collateral Agent, and Issuing Bank, and other parties (incorporated by reference to Exhibit 10.1 of Form 10-Q of Education Management Corporation filed on May 13, 2013)
10.13	Amendment No. 2, dated as of April 16, 2014, to the Letter of Credit Facility Agreement, dated as of November 30, 2011, as amended by Amendment No. 1 dated January 29, 2013, among Education Management LLC, Education Management Holdings LLC, the Grantor Subsidiaries, each lender from time to time party thereto and Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Bank (incorporated by reference to Exhibit 10.2 of Form 10-Q of Education Management Corporation filed on May 8, 2014)
10.14	Letter of Credit Facility Agreement, dated as of March 9, 2012, among Education Management LLC, Education Management Holdings LLC, BNP Paribas, as Administrative Agent, Collateral Agent and Issuing Bank, and other parties thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management Corporation filed on March 12, 2012)
10.15	Amendment No. 1 dated as of February 15, 2013, to the Letter of Credit Facility Agreement dated as of March 9, 2012, among Education Management LLC Education Management Holdings LLC BNP Paribas as Administrative Agent, Collateral Agent and Issuing Bank, and other parties thereto (incorporated by reference to Exhibit 10.2 of Form 10-Q of Education Management Corporation filed on May 13, 2013)
10.16	Amendment No. 2, dated as of April 16, 2014, to the Letter of Credit Facility Agreement, dated as of November 30, 2011, as amended by Amendment No. 1 dated January 29, 2013, among Education Management LLC, Education Management Holdings LLC, the Grantor Subsidiaries, the Lender thereto and BNP Paribas, as Administrative Agent, Collateral Agent and Issuing Bank (incorporated by reference to Exhibit 10.3 of Form 10-Q of Education Management Corporation filed on May 8, 2014)
10.17	Joinder Agreement to that certain Second Amended and Restated Credit and Guarantee Agreement, dated as of December 7, 2010, by and among the Company, Holdings, the Subsidiary Guarantors, the Lenders party thereto from time to time and BNP Paribas, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management Corporation filed on April 2, 2012)
10.18	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.26 to Amendment No. 4 to the Registration Statement on Form S-1 of Education Management Corporation (File No. 333-148259))
10.19	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-K of Education Management Corporation for its fiscal quarter ended December 31, 2011)

Exhibit No.	Description
10.20	Registration Rights Agreement dated as of March 5, 2013, among Education Management LLC, Education Management Finance Corp., the guarantors named therein and the dealer managers named therein (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K of Education Management Corporation filed on March 8, 2013)
10.21+	EDMC Stock Option Plan, effective August 1, 2006, as amended (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Registration Statement on Form S-4 of Education Management LLC and Education Management Finance Corp. (File No. 333-137605)), amendments filed as Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on March 15, 2007, Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on April 5, 2007 and Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on July 5, 2007)
10.22+	Form of Executive Time—Vested Stock Option Agreement (incorporated by reference to Exhibit 10.07 to the Current Report on Form 8-K of Education Management LLC filed on December 13, 2006)
10.23+	Form of Executive Performance—Vested Stock Option Agreement (incorporated by reference to Exhibit 10.08 to the Current Report on Form 8-K of Education Management LLC filed on December 13, 2006)
10.24+	Form of Amendment to Executive Performance—Vested Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Education Management Corporation filed on May 5, 2011)
10.25+	Education Management Corporation Long-Term Incentive Compensation Plan (previously filed as Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on March 2, 2007)
10.26+	Education Management Corporation Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
10.27+	Education Management Corporation Amended 2012 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended December 31, 2013)
10.28+	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
10.29+	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2009)
10.30+	Form of Restricted Stock Unit Award Agreement for Executives (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2013)
10.31+	Education Management LLC Retirement Plan, as amended and restated as of January 1, 2006 (previously filed as Exhibit 10.01 to the Current Report on Form 8-K of Education Management LLC filed on December 29, 2006)
10.32+	Employment Agreement dated February 8, 2007 among Education Management LLC, Education Management Corporation and Todd S. Nelson (incorporated by reference to Exhibit 10.02 to the Current Report on Form 8-K of Education Management LLC filed on February 14, 2007)
10.33+	Employment Agreement, dated as of June 1, 2006, between Education Management Corporation and Edward H. West (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of Education Management LLC and Education Management Finance Corp. (File No. 333-137605))
10.34*	Employment Agreement, dated as of June 22, 2014, between Education Management LLC and Danny Finuf (incorporated by reference to Exhibit 10.30 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2010)
10.35+	Employment Agreement, dated as of December 7, 2006, between Education Management LLC and John M. Mazzoni (incorporated by reference to Exhibit 10.02 to the Current Report on Form 8-K of Education Management LLC filed on December 13, 2006)
10.36+	Employment Agreement, dated as of December 7, 2006, between Education Management LLC and John T. South, III (incorporated by reference to Exhibit 10.04 to the Current Report on Form 8-K of Education Management LLC filed on December 13, 2006)

Exhibit No.	Description
10.37+	Letter Agreement, dated as of December 7, 2006, between Education Management LLC and John T. South, III (incorporated by reference to Exhibit 10.05 to the Current Report on Form 8-K of Education Management LLC filed on December 13, 2006)
10.38+	Letter Agreement, dated March 30, 2007, between Education Management LLC and John T. South, III (incorporated by reference Exhibit 10.03 to the Current Report on Form 8-K of Education Management LLC filed on April 5, 2007)
10.39+	Employment Agreement, dated as of August 11, 2009, between Education Management LLC and John R. Kline (incorporated by reference to Exhibit 10.32 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2010)
10.40+	Employment Agreement, dated as of December 7, 2006, between Education Management LLC and J. Devitt Kramer (incorporated by reference to Exhibit 10.29 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2010)
10.41+	Employment Agreement, dated as of October 22, 2007, between Education Management LLC and Craig Swenson (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2010)
10.42+	Amendment to Employment Agreement, dated as of October 2, 2012, between Education Management Corporation and Edward H. West (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2012)
10.43+	Stock Option Agreement, dated as of October 2, 2012, between Education Management Corporation and Edward H. West (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2012)
10.44+	Education Management Corporation 2012 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of Education Management Corporation filed on September 12, 2012)
10.45+	Form of Executive Stock Option Agreement (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2012)
10.46+	Form of Non-Executive Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of Education Management Corporation for its fiscal quarter ended September 30, 2012)
10.47+	Waiver and Release of Claims dated as of June 20, 2013, between Education Management Corporation and John M. Mazzoni (incorporated by reference to Exhibit 10.39 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2013)
10.48+	Employment Agreement, dated as of August 27, 2013, between Education Management Corporation and Mick J. Beekhuizen (incorporated by reference to Exhibit 10.40 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2013)
10.49+	Employment Agreement, dated as of April 23, 2013, between Education Management Corporation and Carol A. DiBattiste (incorporated by reference to Exhibit 10.41 to the Annual Report on Form 10-K of Education Management Corporation for its fiscal year ended June 30, 2013)
10.50*	First Supplemental Indenture, dated as of September 12, 2014, among Brown Mackie Education Corporation, Education Finance II LLC, South University Research Corporation, The Art Institutes International LLC and The Bank of New York Mellon Trust Company, N.A., as Trustee
10.51*	Third Supplemental Indenture, dated as of September 12, 2014, among Brown Mackie Education Corporation, Education Finance II LLC, South University Research Corporation, The Art Institutes International LLC and The Bank of New York Mellon Trust Company, N.A., as Trustee
12.1*	Computation of ratio of earnings to fixed charges
21.1*	List of Subsidiaries

Exhibit No.	Description
31.1*	Certification of Edward H. West required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Mick J. Beekhuizen required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Edward H. West required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Mick J. Beekhuizen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Data File

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* Filed herewith. All other exhibits were previously filed.

\+ Management contract or compensatory plan or arrangement.

Waiver to Second Amended and Restated Credit and Guaranty Agreement

WAIVER to Second Amended and Restated Credit and Guaranty Agreement, dated as of June 23, 2014 (this " Waiver"), among **Education Management LLC**, a Delaware limited liability company ("Company"), **Education Management Holdings LLC**, a Delaware limited liability company ("Holdings"), **certain subsidiaries of Holdings** party hereto, and the **Lenders** party hereto.

W I T N E S S E T H:

WHEREAS, Company, Holdings, certain subsidiaries of Holdings, the Lenders and BNP Paribas, as Administrative Agent and as Collateral Agent, are parties to that certain Second Amended and Restated Credit and Guaranty Agreement, dated as of February 13, 2007 and amended and restated as of December 7, 2010 (as further amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement");

WHEREAS, Company and the other Credit Parties have requested that the Lenders waive certain potential Events of Default under the Credit Agreement; and

WHEREAS, the Lenders signatory hereto (the "Consenting Lenders"), constituting the Requisite Lenders under and as defined in the Credit Agreement, are willing to grant Company and the other Credit Parties' request for a waiver on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Credit Agreement.

2. Designated Potential Defaults; Waiver.

   (a) Company anticipates that, absent this Waiver, Defaults or Events of Default would occur pursuant to Section 8.1(b) of the Credit Agreement as a result of Company's failure to comply with (i) Section 6.10(a) of the Credit Agreement and (ii) Section 6.10(b) of the Credit Agreement, in each case for the Test Period ending on June 30, 2014 (together with any Default or Event of Default that would arise from the failure to deliver any notices related to such Defaults and Events of Default under Section 5.3 of the Credit Agreement, the "Designated Potential Defaults").

   (b) Effective as of the Waiver Effective Date (as defined below), and subject to the terms and conditions set forth herein, the Consenting Lenders hereby waive the Designated Potential Defaults and agree to forbear (and direct the Administrative Agent to forbear) from taking any remedial action that, absent this Waiver, would be available under any Credit Document in connection with the Designated Potential Defaults until the earliest to occur of the following (each a "Termination Event):

      (i) September 15, 2014 (as such date may be extended with the written consent of the Requisite Lenders); or

      (ii) the occurrence of any Event of Default (including as a result of failure to comply with the provisions of Section 4 hereof) other than the Designated Potential Defaults.

Upon the occurrence of a Termination Event and, with respect to the Termination Event set forth in clause (ii) above, written notice thereof to the Credit Parties by the Administrative Agent (at the direction of the Requisite Lenders) (such date the "Waiver Maturity Date" and the period from the Waiver Effective Date until the Waiver Maturity Date the "Waiver Period") the agreement of the Lenders to waive and forbear hereunder shall terminate and be of no further force and effect without any further action or notice of any kind, and the Agents, at the direction of the Requisite Lenders, shall be free to exercise all rights and remedies available to them under the Credit Agreement, any other Credit Document or applicable law, each of which is hereby reserved with respect to the period following the Waiver Period.

(c) Except as expressly set forth herein, this Waiver shall not limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or Administrative Agent or Collateral Agent under the Credit Agreement or any other Credit Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Credit Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. No course of dealing shall be construed as a result of this Waiver, and nothing herein shall be deemed to entitle any Credit Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Credit Document in similar or different circumstances. Each of Company and the other Credit Parties hereby ratifies and reaffirms all of its payment and performance obligations and obligations to indemnify, contingent or otherwise, under each Credit Document to which such Person is a party, and each such Person hereby ratifies and reaffirms its grant of Liens on its properties pursuant to the Credit Documents to which it is a party as security for the Obligations. Without limitation of the generality of the foregoing, each Guarantor acknowledges the effectiveness and continuing validity of the Guaranty and its liability for the Obligations pursuant to the terms of the Guaranty and that such Obligations are payable without defense, setoff and counterclaim.

3. Acknowledgement by Credit Parties. In order to induce the Consenting Lenders to enter into this Waiver, each Credit Party hereby acknowledges, stipulates and agrees as follows:

(a) The principal amount of 2015 Revolving Loans outstanding as of the date hereof is $220,500,000, the aggregate amount of outstanding Letters of Credit or any unreimbursed drawings under any Letter of Credit as of the date hereof is $107,593,215, the principal amount of Tranche C-2 Term Loan outstanding as of the date hereof is $730,390,627.09 and the principal amount of Tranche C-3 Term Loan outstanding as of the date hereof is $342,419,395.44, each of which amounts are payable without defense, setoff or counterclaim. The foregoing amounts do not include interest, fees and expenses and other amounts that are chargeable or otherwise reimbursable under the Credit Documents.

(b) All of the assets pledged, assigned, conveyed, mortgaged, hypothecated or transferred to the Collateral Agent for the benefit of the Lenders pursuant to the Collateral Documents are (and shall continue to be) subject to valid, enforceable and (to the extent required under the Credit Documents) perfected liens and security interests of the Collateral Agent, as collateral security for all of the Obligations, subject to no Liens other than Liens permitted by Section 6.1 of the Credit Agreement.

4. Covenants. In order to induce the Consenting Lenders to enter into this Waiver, Holdings and Company hereby agree as follows:

(a) Each Credit Party covenants to not establish any new bank account other than (i) accounts solely for the purpose of holding deposits constituting permitted Liens pursuant to Section 6.1 of the Credit Agreement and (ii) accounts set forth on the schedule referred to in Section 6(e) below, except on not fewer than three (3) Business Days' written notice to the Administrative Agent and, unless consented to in writing by the Administrative Agent, will not maintain a balance (other than intra-day) of in excess of $250,000 in the aggregate in any such account or accounts prior to entry into an appropriate control agreement with the Collateral Agent and the applicable depositary bank in respect of such account.

(b) From and after the Waiver Effective Date, Holdings and Company shall, and shall cause each Subsidiary to, carry out their cash management operations consistent with past practice and in the ordinary course of their businesses, including the concentration of cash and cash-equivalent securities in the deposit and securities accounts (the "Applicable Accounts") identified on the schedule referenced in Section 6(e) of this Waiver; provided, the foregoing shall not be deemed to prevent Holdings, Company or any Subsidiary from conducting cash management operations, and holding cash at Subsidiaries, so as to comply with applicable law or regulatory requirements or otherwise satisfy financial strength or like tests applicable to the Subsidiaries, the failure of which could lead to adverse action by regulatory authorities and/or accreditation agencies.

(c) As promptly as practicable and in any event within 30 days of the Waiver Effective Date, the applicable Credit Parties shall execute control agreements (the "Control Agreements"), in form and substance reasonably satisfactory to the Company and the Collateral Agent, with respect to the Applicable Accounts, it being understood and agreed that the relevant Credit Parties will, subject to the terms of the Credit Documents, be permitted to direct the application of funds contained in the Applicable Accounts for so long as no Event of Default (other than the Designated Potential Defaults) shall have occurred and be continuing and notwithstanding anything to the contrary set forth in this Waiver or the Credit Documents, the Control Agreements may be modified or terminated with the consent of the Requisite Lenders;

(d) No later than July 18, 2014, Company shall deliver to the Administrative Agent (and to those Lenders that have consented to receive material non-public information) its five-year business plan;

(e) None of the Credit Parties shall make a voluntary payment pursuant to Section 2.13 of the Credit Agreement during the Waiver Period; provided, (i) substantially simultaneously with the payment pursuant to Section 2.12 of the Credit Agreement of the Installment due June 30, 2014 in respect of the Tranche C-2 Term Loans and the Tranche C-3 Term Loans, the Company shall voluntarily prepay a *ratable* amount of the outstanding Revolving Loans, based on the amount of such Installment payment of the Term Loans and the aggregate principal amounts of Term Loans and Revolving Loans outstanding as of the date hereof (i.e., approximately $610,200 in principal payment of Revolving Loans, the requirement to make a voluntary payment of Revolving Loans in minimum amounts of $1,000,000 and multiples of $500,000 being hereby waived solely for purposes of the payment in accordance with this section), and (ii) the Company shall not re-borrow the amount of Revolving Loans so repaid for the duration of the Waiver Period;

(f) None of the Credit Parties shall, during the Waiver Period, make (i) any Restricted Payment pursuant to Section 6.6(i) of the Credit Agreement or (ii) any payment with respect to Junior Financing or Senior Cash Pay/PIK Notes due 2018, in each case except as and when required pursuant to the documentation governing such indebtedness;

(g) Each of the Credit Parties hereby agrees to promptly take, at its own expense, whatever commercially reasonable action may be requested by the Collateral Agent or the Lenders for purposes of perfecting and maintaining perfection (including facilitating perfection by possession, as appropriate) and the required priority of, a security interest in the Collateral;

(h) The Credit Parties agree that during the Waiver Period they shall not, and shall not permit their subsidiaries to, make any Disposition pursuant to Sections 6.5(b) (but solely to the extent in reliance on clause (iii) of the definition of "Asset Sale"), 6.5(f) or 6.5(k) of the Credit Agreement, in each case other than with respect to the Company's real property located in Sarasota, Florida; and

(i) The Credit Parties agree to take all such actions as shall be set forth on Schedule I hereto within the time periods specified on Schedule I hereto (unless a later date is otherwise agreed to by the Collateral Agent).

The foregoing covenants shall constitute covenants for all purposes of the Credit Agreement and the failure to comply with any such covenant shall constitute an Event of Default under the Credit Agreement.

5. Conditions Precedent; Effectiveness. This Waiver shall become effective as of the first date (the "Waiver Effective Date") on which each of the following conditions has been satisfied in accordance with the terms hereof:

(a) Administrative Agent shall have received counterparts of this Waiver executed by or on behalf of the Credit Parties and Lenders representing the Requisite Lenders;

(b) Administrative Agent shall have received all fees and other amounts due and payable to it on or prior to the Waiver Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses (including the reasonable and documented fees, charges and disbursements of counsel) of Administrative Agent in connection with this Waiver; and

(c) the representations and warranties contained in this Waiver shall be true and correct in all material respects and no Default or Event of Default (other than the Designated Potential Defaults) shall have occurred and be continuing.

6. Representations and Warranties. To induce the Consenting Lenders to execute this Waiver, each Credit Party represents and warrants, as of the Waiver Effective Date, that:

(a) this Waiver has been duly authorized, executed and delivered by such Credit Party;

(b) this Waiver constitutes a legal, valid and binding obligation, enforceable against such Credit Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law;

(c) the representations and warranties of such Credit Party set forth in the Credit Agreement and in the other Credit Documents are true and correct in all material respects, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties were true and correct in all material respects as of such earlier date);

(d) other than the Designated Potential Defaults, no event has occurred and is continuing that constitutes a Default or an Event of Default; and

(e) the bank accounts listed in the June 23, 2014 schedule previously disclosed by the Company to the Collateral Agent and to Milbank, Tweed, Hadley & McCloy LLP and White & Case LLP, each as counsel for certain of the Lenders, are the only bank accounts held or owned by Company or any of its direct or indirect subsidiaries as of the date hereof and said schedule is accurate and complete as of the date hereof.

7. Credit Document. This Waiver shall constitute a "Credit Document" for all purposes of the Credit Agreement and the other Credit Documents.

8. Further Assurances. The Lenders party hereto hereby authorize Administrative Agent to enter into this Waiver and such further documents and do such other acts and things as Company may reasonably request in order to fully effect the purposes of this Waiver. Further, subject to Section 10.17 of the Credit Agreement, the Credit Parties shall provide to Administrative Agent, its advisors and the advisors of any ad hoc group of Lenders, upon reasonable request, full and timely access to the Credit Parties' books, records, senior level employees and any advisors hired by the Credit Parties, and shall permit any of the foregoing persons, upon reasonable request, to review and copy all books and records (including without limitation all books and records maintained in electronic format) of each Credit Party, subject in each case to the confidentiality obligations of the Credit Parties.

9. Release.

(a) In consideration of the agreements of the Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, as of the Waiver Effective Date, the Company and each other Credit Party, on behalf of themselves and their successors, assigns and other legal representatives, hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges, to the fullest extent permitted by law, each Agent, each Lender, each Issuing Bank, the Swing Line Lender, their respective successors and assigns and each of their respective affiliates, subsidiaries, predecessors, directors, officers, partners, attorneys, employees, agents and other representatives (each Lender, each Agent, each Issuing Bank, the Swing Line Lender and all such other Persons being hereinafter referred to collectively as the "Releasees", and individually as a "Releasee") of and from all demands, actions, causes of action, suits, controversies, claims, defenses, rights of offset (other than any offset arising from a claim not subject to the release contained herein), damages and liabilities whatsoever, including, without limitation, any so-called "lender liability", equitable subordination claims or defenses, any claims arising under 11 U.S.C. §§ 541-550 or any claims for avoidance or recovery under any other federal, state or foreign law equivalent (individually, a "Claim" and, collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, liquidated or unliquidated, joint and/or several, both at law and in equity, which the Company or any other Credit Party or any of their successors, assigns or other legal representatives may now or hereafter have against the Releasees or any of them which arises at any time on or prior to the date of this Waiver on account of, or in relation to, any of the Credit Agreement, as modified hereby, the other Credit Documents or this Waiver or transactions thereunder or related thereto, other than, in each case, any Claim in respect of the gross negligence or willful misconduct of any Releasee.

(b) The Company and each other Credit Party understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) The Company and each other Credit Party, on behalf of themselves and their respective successors, assigns and other legal representatives, further stipulates and agrees with respect to all Claims, that it hereby waives any and all provisions, rights, and benefits conferred by Cal. Civ. Code 1542 or any law of any state of the United States, or any principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code 1542, which provides: "a general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor".

(d) The agreements of each Credit Party set forth in this Section (9) of this Waiver shall survive the termination of this Waiver.

10. Counterparts. This Waiver may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

11. Governing Law. This Waiver shall be governed by, and construed in accordance with, the law of the State of New York.

12. Severability. If any provision contained in this Waiver shall be held to be invalid, illegal or unenforceable in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, and the remaining provisions of this Waiver shall not in any way be affected or impaired. The invalidity, illegality or unenforceability of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

13. Headings. Section headings herein are included for convenience of reference only and shall not affect the interpretation of this Waiver.

[SIGNATURE PAGES FOLLOW.]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver to be duly executed by their respective authorized officers as of the day and year first above written.

EDUCATION MANAGEMENT LLC

By: ______________________________

Name: J. Devitt Kramer

Title: Senior Vice President, General Counsel & Corporate Secretary

EDUCATION MANAGEMENT HOLDINGS LLC

By: ______________________________

Name: J. Devitt Kramer

Title: Secretary

EDUCATION MANAGEMENT FINANCE CORP.

By: ______________________________

Name: J. Devitt Kramer

Title: Secretary

[Signature Page to Waiver]

Argosy University Family Center, Inc.

EDMC Marketing and Advertising, Inc.

Higher Education Services, Inc.

MCM University Plaza, Inc.

The Connecting Link, Inc.

AID Restaurant, Inc.

AIH Restaurant, Inc.

AIIM Restaurant, Inc.

By: ______________________________

Name: J. Devitt Kramer
Title: Secretary

[Signature Page to Waiver]

Aggregate Amounts Beneficially Owned or Managed on Account of:

2015 Revolving Commitments: $_______

Tranche C-2 Term Loans: $_______

Tranche C-3 Term Loans: $_______

Name of Institution:

____

By

Name:
Title:

For Lenders requiring a second signature line:

By

Name:
Title:

Schedule I

Post-Closing Items

The Credit Parties agree that, in addition to the other terms, conditions and provisions set forth herein, the Credit Parties will deliver, or will cause to be delivered, to the Administrative Agent and the Collateral Agent by no later than the date referred to below with respect to each such item (or such longer period of time as may be agreed by the Collateral Agent) the following items, in each case in form and substance reasonably satisfactory to the Collateral Agent:

(a) on or prior to the date that is five (5) Business Days after the date on which U.S. Bank National Association ("US Bank") succeeds BNP as Administrative Agent and Collateral Agent and in any event, no later than thirty (30) calendar days from the date hereof, a Counterpart Agreement the effect of which is to make each of (i) Education Finance II LLC, (ii) The Art Institutes International LLC, (iii) Brown Mackie Education Corporation, (iv) South University Research Corporation, (v) AIT Restaurant Inc., (vi) AiCA-IE Restaurant, Inc., (vii) AITN Restaurant, Inc. and (viii) AIIN Restaurant, LLC ("New Guarantors") a Guarantor under the Credit Agreement and a Grantor under the Pledge and Security Agreement;

(b) on or prior to the date that is five (5) Business Days after the date on which US Bank succeeds BNP as Administrative Agent and Collateral Agent and in any event, no later than thirty (30) calendar days from the date hereof, original share or interest certificates and related share powers, executed, in blank, representing 100% of the certificated issued and outstanding equity interest in the New Guarantor's Subsidiaries; and

(c) promptly any document reasonably required to acknowledge, confirm, register, record or perfect the Collateral Agent's interest in the Intellectual Property.

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "**Agreement**"), is entered into as of the 22nd day of June, 2014, between Danny D. Finuf (the "**Executive**") and Education Management LLC, a Delaware limited liability company (the "**Company**").

WHEREAS, the Company desires to employ the Executive and utilize Executive's management services as indicated herein, and the Executive desires to be employed by the Company;

WHEREAS, the Executive and the Company were parties to an Employment Agreement, dated December 7, 2006 (the "Prior Employment Agreement"), under the terms of which the Executive served as the President, Brown Mackie Colleges; and

WHEREAS, the Executive has resigned his position as President, Brown Mackie Colleges and the parties wish to reinstate him to such position under the terms set forth herein;

NOW, THEREFORE, in consideration of the Company's willingness to reinstate the Executive and the mutual covenants contained herein and other valid consideration the sufficiency of which is acknowledged, the Parties agree as follows:

1. **Employment; Devotion to Duties**.

(a) **General**. The Company will employ the Executive as its Senior Vice President and President, Brown Mackie Colleges reporting to the Company's Chief Executive Officer ("**CEO**") or the CEO's designee, and the Executive accepts employment to serve in this capacity, all upon the terms and conditions in this Agreement. The Executive will have those duties and responsibilities that are consistent with the Executive's position with the Company, as determined by the CEO and/or the Board of Directors (the "**Board**").

(b) **Devotion to Duties**. During Executive's employment, the Executive will devote all of Executive's professional time and efforts to the performance of Executive's duties on the Company's behalf, and will not engage in any outside employment or consulting, or any activity competitive with or adverse to the Company's business, without the express prior written consent of the Company.

2. **Term**.

(a) **Initial Term**. Subject to the Executive's execution of the Declaration in the form attached as Exhibit A, the terms of which are incorporated herein as though set forth in full, the Executive will commence employment on June 23, 2014. The Executive will be employed under this Agreement until June 20, 2015 (the "**Initial Term**"), unless the term is extended under Section 2(b), or the Executive's employment is terminated earlier pursuant to Sections 7-11.

(b) **Renewal Term**. The term of this Agreement and the Executive's employment renew automatically for successive one-year periods (each, a "**Renewal Term**"), unless at least 180 days before the end of the Initial Term or any Renewal Term, either party gives notice to the other party that this Employment Agreement will terminate at the end of the Initial Term or any Renewal Term (the Initial Term, together with any Renewal Terms, the "**Term**"). If the Company elects not to renew this Agreement at the end of the Initial Term or any Renewal Term, the Executive's termination of employment will be treated as a termination without Cause under Section 7(b).

3. **Location**. The location of the Executive's principal place of employment will be at the current headquarters for Brown Mackie Colleges in Cincinnati, Ohio; but the Executive understands that Executive may be required to travel and perform services outside of this area as reasonably required to properly perform Executive's duties under this Agreement.

4. **Base Salary**. The Company will pay the Executive an annual base salary ("**Base Salary**") in the amount of $450,000.00. The Base Salary will be paid in accordance with the Company's payroll practices in effect from time to time. The Executive's Base Salary will be reviewed at least annually in accordance with the Company's executive compensation review policies and practices and may be adjusted in accordance with such review.

5. **Incentive Compensation**.

(a) **Annual Bonus**. The Executive will be entitled to participate in the Company's Management Incentive Compensation Plan or any successor incentive compensation program maintained by the Company (the "**MICP**"), which plan is designed to award annual incentive compensation based on achieving certain goals and performance criteria established by the Board or one of its committees. During the Initial Term and each Renewal Term, Executive's MICP target bonus award will be 100%. This MICP bonus, if any, will ordinarily be paid to the Executive no later than two and one-half months following the end of the relevant fiscal year in which the services are performed.

(b) **Equity Incentive**. The Executive will be eligible to receive grants under the Company's 2012 Omnibus Long-Term Incentive Plan (the "**2012 Plan**") beginning with the next regular annual cycle of grants to senior executives, subject in all cases to Board approval.

6. **Executive Benefits**.

(a) **Fringe Benefits; Paid Time Off**. The Company will provide the Executive with fringe benefits and other executive benefits on the same terms and conditions as generally available to senior management (*e.g.*, health and long-term disability insurance, etc.); provided, however, that the Company reserves the right to amend or terminate any employee or executive benefit plan or program. During the Term of employment, the Executive is entitled to paid time off ("**PTO**") to be determined under the Company's PTO policies in effect from time to time. The Executive's entitlement to accrued PTO at the time of termination, if any, shall likewise be determined by the Company's PTO policies in effect at the time of termination.

(b) **Reimbursement of Expenses**. The Executive is entitled to be reimbursed by the Company for reasonable business expenses incurred in performing Executive's duties under the Company's expense reimbursement policies in effect from time to time or as otherwise approved by the CEO or the Board.

7. **Termination of Employment by the Company During the Term of the Agreement**. The Executive's employment may be terminated by the Company during the Term of this Agreement either for Cause or without Cause, as defined below.

(a) If the termination is for Cause, it shall be effective immediately upon written notice by the Company and the Executive will be entitled to receive only Executive's Base Salary and any other accrued benefit through the date of that notice (the "**Accrued Amounts**"). The Executive will not be entitled to receive any further bonuses under the MICP that have not already been paid.

(b) If the termination is without Cause, it shall be effective two weeks after issuance of written notice of such termination by the Company. The Executive may be placed on paid administrative leave during any part of this two week notice period. If terminated without Cause, the Executive shall be paid all Accrued Amounts plus "**Severance Pay**" as follows:

(i) If the notice of termination without Cause is issued within the Executive's first year of employment from the date of this Agreement, then the Severance Pay will be equal to six months of the Executive's then Base Salary.

(ii) If the notice of termination without Cause is issued after the Executive's first year of employment from the date of this Agreement, then the Severance Pay will be equal to twelve months of the Executive's then Base Salary.

The foregoing Severance Pay shall be payable in equal monthly installments over the six or twelve month period, as applicable, following the Executive's separation from employment (unless otherwise delayed in order to comply with Section 409A or any other provision of the Internal Revenue Code) (the "**Severance Pay Period**"). The Executive's current welfare benefits, such as medical, dental, disability, etc. shall be continued for the six or twelve month period, as applicable, following the Executive's separation from employment, with the Executive continuing to be responsible for the same portion of the costs of such benefits as of the date of Executive's separation. Additionally, if the notice of termination is given more than six months after the first day of the then-current fiscal year and the Executive was employed by the Company on the first day of such fiscal year, the Executive shall be entitled to receive a pro rata bonus under the MICP to the extent bonuses under the MICP are awarded by the Compensation Committee for such fiscal year (the "**Pro Rata Bonus**"). If awarded, the Pro Rata Bonus shall be paid on September 15 in the fiscal year following the fiscal year in which the notice of termination was given. The Severance Pay, the Pro Rata Bonus and the other benefits described in this Section 7(b) are collectively referred to as "**Severance Benefits**."

(c) The Executive will not be entitled to any of the above-described Severance Benefits unless the Executive executes, and does not revoke, a Full Waiver and Release of Claims to be provided by the Company. The payment of Severance Benefits will not commence until the required revocation period has expired.

(d) **Definition**. For purposes of this Agreement, "**Cause**" means: (1) willful and continued failure to use the Executive's best efforts to perform the Executive's assigned duties; (2) indictment for, conviction of, or entry of a plea of guilty or nolo contendere to, a felony or a misdemeanor involving moral turpitude; (3) gross negligence causing material harm to the Company or any affiliate, or its business or reputation; (4) willful and material misconduct; (5) willful and material breach of fiduciary duty; (6) willful and material breach of the restrictive covenants described in Section 12 of this Agreement or any of the Company's material written policies, including, but not limited to, the Company's Business Ethics Policy and Code of Conduct and Policy Statement on Inside Information and Insider Trading; or (7) the Company's discovery of evidence or information that demonstrates that one or more of the items set forth in Executive's Declaration (attached as Exhibit A) was, more likely than not, not truthful, in whole or in part.

(e) Upon the date of the Executive's termination of employment with the Company for any reason, the Executive will be deemed to have resigned from all positions Executive then holds as an officer, director, employee and member of the Board (and any committee thereof) of the Company.

8. **Resignation by the Executive During the Term of the Agreement**. The Executive agrees to provide notice of his resignation at least ninety (90) days' in advance of his intended resignation date. The Company shall have the exclusive right to determine the effective date of termination, which may or may not be the Executive's intended resignation date. The Company may, in its sole discretion, place the Executive on paid administrative leave for any portion of this notice period. In the event of such resignation, Executive will be paid the Accrued Amounts up to the date of termination designated by the Company. The Executive will not be entitled to receive any additional bonuses under the MICP not already paid. If the Executive fails to give the required notice, he forfeits his eligibility to Severance Benefits as otherwise provided in this Agreement.

9. **Disability.**

(a) Upon a determination that the Executive is disabled, the Company will place the Executive on a paid leave of absence for a period beginning on date of the disability determination and ending on the anniversary date of this Agreement next following the date of the disability determination, or for a period of six months, whichever is longer (the "**Disability Period**"). During the Disability Period, the Company will continue to provide the Executive all compensation and benefits provided for in Sections 4, 5 and 6; provided, however, that the Company's obligation to pay the Executive's Base Salary will be reduced by the amounts paid to the Executive under any long-term disability insurance plan sponsored or otherwise maintained by the Company, and in no event will the Company pay the Executive more than two-thirds of the Executive's monthly Base Salary during the Disability Period. Following this Disability Period, the Executive's employment will be terminated.

(b) For purposes of this Agreement, disability or disabled means the Executive is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or because of such impairment, the Executive is receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees.

10. **Termination or Resignation Due to Change in Control**.

(a) If, in anticipation of or within two years following the closing of a transaction that constitutes a Change in Control, the Executive's employment is terminated without Cause, the Company will make a lump sum payment to the Executive within 60 days of such separation equal to twenty four (24) months of the Executive's then Base Salary and target Annual MICP Bonus.

(b) The timing and amount of the payment provided for above may be modified in order to comply with the requirements of the Internal Revenue Code, including Sections 280G and 409A.

(c) For purposes of this Agreement, the definition of a "Change in Control" will be the definition contained in the 2012 Omnibus Long Term Incentive Plan and the definition of "in anticipation of" will mean that the termination (i) was at the request of a third party that has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in connection with a Change in Control that has been proposed, so long as in either case such Change in Control shall actually have occurred.

11. **Mitigation/Offset**. The Executive is under no obligation to seek other employment or to otherwise mitigate the obligations of the Company under this Agreement.

12. **Executive's Post-Termination Obligations**.

(a) **Interests to be protected**. Executive and the Company acknowledge that because Executive is a member of the Company's senior management team, Executive will have access to information (some of which is Confidential Information and some of which is not) and knowledge about the Company that is not generally available and that is extremely valuable to the Company. Therefore, the Company has a legitimate business interest in protecting such information for a reasonable period of time following Executive's termination of employment for any reason. The Parties agree that the restrictions in this Section 12 are reasonable and necessary to protect the Company's legitimate business interest. Executive and the Company agree that the following restrictions are fair and reasonable and are freely, voluntarily and knowingly entered into. Further, each Party has been given the opportunity to consult with the legal counsel before entering into this Agreement.

(b) **Period of Executive's Post-Termination Restrictions.** Except as otherwise specifically indicated, Executive agrees to comply with the following restrictions and/or conditions during the Term and for a twelve (12) month period following the Executive's termination of employment by either party for any reason, or for the Severance Pay Period pursuant to Section 7(b) above, whichever is longer (the "**Restriction Period**"), except that, given the circumstances of the Executive's resignation and subsequent re-employment, the Executive specifically acknowledges and agrees that the "Restriction Period" with respect to Anthem Education Group or any successor, parent, subsidiary, affiliate, or partner thereof, shall be twenty-four (24) months.

(c) **Confidential and Proprietary Information**. During the course of the Executive's employment, the Executive will be exposed to a substantial amount of confidential and proprietary information, including, but not limited to, financial information, annual reports, audited and unaudited financial reports, operational budgets and strategies, methods of operation, customer lists, strategic plans, business plans, marketing plans and strategies, new business strategies, merger and acquisition strategies, management systems programs, computer systems, personnel and compensation information and payroll data, and other such reports, documents or information (collectively the "**Confidential and Proprietary Information**"). If the Executive's employment is terminated by either party for any reason, Executive promises and, if requested, will sign an affidavit certifying his compliance, that Executive will promptly return to the Company all such Confidential and Proprietary Information and documents and will not retain or make any copies of such Confidential and Proprietary Information in any form, format, or manner whatsoever (including paper, digital or other storage form) nor will the Executive at any time after his termination from employment for any reason use or disclose the same in whole or in part to any person or entity, in any manner either directly or indirectly, without the written authorization of the Company. Executive understands and agrees that no information or documentation subject to a prior litigation hold notice shall be destroyed. Executive further agrees and understands that his obligations under this Paragraph 12(c) are not limited by any Restriction Period.

(d) **Non-Solicitation of Clients, Customers and Vendors**. During the Restriction Period, the Executive will not directly or indirectly call upon, contact, encourage, handle, accept or solicit client(s), prospective clients, customers (excluding students) or vendors of the Company with whom the Executive worked while employed by the Company or about whom the Executive had access to Confidential and Proprietary Information.

(e) **Competing Business**. During the Term and the Restriction Period, the Executive will not engage in the same or similar business as the Company, which would be in competition with any line of business of the Company, in any geographical area where the Company is engaged in business.

If the geographical area described above is found by a court to be unreasonable in scope, then the geographical area will be the geographical area in which the Executive performed the Executive's duties under this Agreement. The Executive specifically acknowledges and agrees that, without limitation, the following entities are a "Competing Business" with the Company as of the date of this Agreement and, therefore, subject to these post-employment restrictions without further dispute: Anthem Education Group.

(f) **Non-Solicitation of Employees**. During the Term and the Restriction Period, the Executive will not encourage any Company employee to leave that employment nor seek to hire any Company employee for the purpose of having such employee engage in services that are the same, similar or related to the services that employee provided for the Company for any Competing Business, as defined above.

(g) **Cooperation; No Disparagement**. At all times following his termination from employment by either party for any reason, the Executive agrees to provide reasonable assistance to the Company (including assistance with litigation matters), upon the Company's request, concerning the Executive's previous employment responsibilities and functions with the Company. In consideration for such cooperation, but only if the Executive is not receiving Severance Benefits under this Agreement, Company will compensate the Executive for the time the Executive spends on such cooperative efforts (at an hourly rate based on the Executive's Base Salary during the year preceding the date of termination) and Company will reimburse the Executive for Executive's reasonable out-of-pocket expenses the Executive incurs in connection with such cooperative efforts. Additionally, at all times after the Executive's employment with the Company has terminated, the Executive agrees to refrain from making any disparaging or derogatory remarks, statements and/or publications regarding the Company, its owners and directors, its employees or its services, except as required by law. Executive further agrees and understands that his obligations under this Paragraph 12(g) are not limited by any Restriction Period.

(h) **Injunctive Relief, Damages and Forfeiture**. The parties agree that in addition to instituting arbitration proceedings pursuant to Section 14 to recover damages resulting from a breach of this Agreement, either party may also seek injunctive relief to enforce this Agreement in a court of competent jurisdiction. In any such action, the prevailing party will be entitled to an award of attorney's fees and costs. If the Executive violates the restrictions in this Section 12, the Executive will promptly return to Company prior amounts paid to the Executive under this Agreement and no further installments will be made if the installment payments have not been completed.

13. **General Provisions**

(a) **Indemnification**. The Company agrees to indemnify the Executive to the fullest extent provided under the Company's Limited Liability Company Agreement and By-Laws, on the same terms and conditions as indemnification is generally provided to the Company's officers and directors.

(b) **Ownership of Works.** All records, reports, notes, compilations, software, programs, designs and/or other recorded or created matters, copies or reproductions, in whatever media form and whether stored on devices owned by the Company or owned by the Executive, relating to the Company's trade secrets, operations, activities, or business, made or received by the Executive during Executive's employment with the Company, are works made for hire and are the Company's exclusive property.

(c) **Severability**. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any applicable law, such provision will be deemed to be modified to the extent necessary to render it valid and enforceable, and if no modification is possible, then such provision will be stricken and the remaining rights and obligations of the parties will be construed and enforced accordingly.

(d) **Entire Agreement**. This Agreement and any agreements concerning equity compensation or other benefits embody the parties' complete agreement with respect to the subject matter in this Agreement and supersede any prior written or contemporaneous understandings or agreements between the parties that may have related in any way to the subject matter in this Agreement, including but not limited to, the Prior Employment Agreement. This Agreement may be amended only in writing executed by the Company and the Executive.

(e) **Governing Law**. Because the Company is a Delaware corporation, and because it is mutually agreed that it is in the best interests of the Company and all of its employees that a uniform body of law be applied to the employment agreements to which the Company is a party, the law of the State of Delaware will govern the interpretation and application of all of the provisions of this Agreement.

(f) **Successors and Assigns**. This Agreement is solely for the benefit of the parties and their respective successors, assigns, heirs and legatees. Nothing in this Agreement will be construed to provide any right to any other entity or individual.

(g) **Executive Representations**. The Executive hereby represents that Executive is not subject to any contract or other restriction that would prevent, or in any way interfere with, Executive accepting employment with the Company and performing any or all of the Executive's duties contemplated pursuant to this Agreement. The Executive further acknowledges that the Company has directed Executive to not misappropriate any confidential information or trade secrets from any prior employer or third party for use in the performance of Executive's duties with the Company.

(h) **Non-Waiver; Construction; Counterparts**. The failure of a party to insist upon performance of any of the terms of this Agreement will not be construed as a waiver. No waiver is effective unless it is in writing and signed by waiving party. This Agreement will be construed fairly as to both parties and not in favor of, or against, either party, regardless of which party prepared the Agreement. This Agreement may be executed in multiple counterparts, each of which will be deemed to be an original, and all such counterparts will constitute but one instrument.

(i) **409A Compliance**. Notwithstanding the other provisions hereof, this Agreement is intended to comply with the requirements of section 409A of the Internal Revenue Code of 1986, as amended, and the regulations thereunder ("**Section 409A**"). Accordingly, all provisions herein, or incorporated by reference, shall be construed and interpreted to comply with Section 409A and if necessary, any such provision shall be deemed amended comply with Section 409A. Further, for purposes of the limitations on nonqualified deferred compensation under Section 409A, each payment of compensation under this Agreement shall be treated as a separate payment of compensation for purposes of applying the Section 409A deferral election rules and the exclusion from Section 409A for certain short-term deferral amounts. Any amounts payable solely on account of an involuntary separation from service of the Executive within the meaning of Section 409A shall be excludible from the requirements of Section 409A, either as involuntary separation pay or as short-term deferral amounts (e.g., amounts payable under the schedule prior to the date that is two and one-half (2.5) months following the end of the fiscal year of involuntary separation) to the maximum possible extent. Any reimbursements or in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during the period of time specified in this Agreement, (ii) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit. Any severance payment to the Executive that is conditioned upon the execution and non-revocation of a release of claims shall be paid in the taxable year in which ends the maximum period of time that the Executive had to consider and revoke such release, regardless of when such release is actually executed.

14. **Dispute Resolution**. Except as set forth in Paragraph 12(h), any dispute, controversy, or claim, whether contractual or non-contractual, including without limitation any federal or state statutory claim, common law or tort claim, or claim for attorneys' fees, between the parties arising directly or indirectly out of or connected with this Agreement and/or the parties' employment relationship, unless mutually settled by the parties hereto, must be resolved by binding arbitration conducted pursuant to the Federal Arbitration Act and in accordance with the Employment Arbitration Rules of the American Arbitration Association (the " **AAA**") in effect at the time. The parties agree that before proceeding to arbitration, they will mediate their dispute(s) before a mutually selected mediator. If the parties are unable to mutually select a mediator within thirty (30) days (or as otherwise agreed), then either party may request the AAA's assistance in appointing a mediator. Any arbitration will be conducted by an arbitrator mutually selected by the parties. If the parties are unable to mutually select an arbitrator within thirty (30) days (or as otherwise agreed), then either party may request the AAA's assistance in selecting an arbitrator. All such disputes, controversies or claims will be conducted by a single arbitrator, unless the parties mutually agree that the arbitration will be conducted by a panel of three arbitrators. The arbitration shall be conducted pursuant to Employment Arbitration Rules of the AAA in effect at the time, or as otherwise agreed. The arbitrator(s) may award any relief available in a court of competent jurisdiction. The resolution of the dispute by the arbitrator(s) will be final, binding, non-appealable (except as provided by the Federal Arbitration Act) and fully enforceable by a court of competent jurisdiction pursuant to the Federal Arbitration Act. The arbitration award will be in writing and will include a statement of the reasons for the award. The arbitration will be held at the principal place of employment of the Executive, or as otherwise agreed to by the parties. The Company will initially pay all AAA, mediation, and arbitrator's fees and costs. The arbitrator(s) may award reasonable attorneys' fees and/or costs to the prevailing party. The Company and the Executive agree that each may bring claims against the other in an individual capacity only, and not as a class representative or class member in any purported collective, class or representative proceeding. Further, unless both the Company and the Executive agree otherwise, the Arbitrator may not consolidate more than one party's claims into a single arbitration proceeding and may not otherwise preside over any form of a collective, class or representative proceeding.

EDUCATION MANAGEMENT LLC, a Delaware limited liability corporation

By:____________________________________

Name:

Title:

EXECUTIVE

DANNY D. FINUF, Individually

EXHIBIT A

DECLARATION

The undersigned, Danny D. Finuf, having been duly sworn under oath certifies that:

i. I am over eighteen years old and make this Declaration under the penalty of perjury; and

ii. I have not disclosed and will not disclose at any time in the future to any principal, officer, contractor, director, or employee of Anthem Education Group, or any parent, subsidiary, or affiliate thereof, any confidential or proprietary information of the Company, including, but not limited to, financial information, operational budgets and strategies, methods of operation, student lists, strategic plans, business plans, marketing plans and strategies, new business strategies, merger and acquisition strategies, management systems programs, computer systems, personnel and compensation information and payroll data, or any other such reports, documents or information (referred to in the Employment Agreement as "Confidential and Proprietary Information"); and

iii. I have not disclosed and will not disclose at any time in the future any Confidential and Proprietary Information to any other third-party at any other time without authorization from the Company; and

iv. I have never downloaded any Company information on a jump/thumb drive or any USB drive(s) without authorization from the Company or in connection with business performed on behalf of the Company; and

v. I understand that if the Company discovers evidence or information that demonstrates that it is more likely than not that I disclosed Confidential and/or Proprietary Information in contravention to my above certifications, in whole or in part, the Company shall have the right to immediately terminate my employment for Cause (as defined in the Employment Agreement) and that I shall be required to repay to the Company as a penalty for my false certification(s), 20 per cent (20%) of my net salary paid from the date of any unauthorized disclosure until the date on which the Company discovers such information.

I declare the above under the penalty of perjury, as if under oath.

____________________________________ Date: ________________

Danny D. Finuf

FIRST SUPPLEMENTAL INDENTURE

First Supplemental Indenture (this "**Supplemental Indenture**"), dated as of September 12, 2014, among the subsidiaries of Education Management LLC, a Delaware limited liability company (the "**Company**"), listed on the signature pages hereto (such subsidiaries, collectively, the "**Guaranteeing Subsidiaries**" and each, a "**Guaranteeing Subsidiary**"), and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**").

W I T N E S S E T H

WHEREAS, each of the Company, Education Management Finance Corp. (together with the Company, the "**Issuers**") and the Guarantors (as defined in the Indenture referred to below) has heretofore executed and delivered to the Trustee an indenture (the "**Indenture**"), dated as of September 5, 2014, providing for the issuance of $175,376,620 aggregate principal amount of Senior PIK Toggle Notes due 2018 (the "**Notes**");

WHEREAS, the Indenture provides that under certain circumstances each Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which such Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "**Guarantee**"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. Each Guaranteeing Subsidiary, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 10 thereof.

Section 3. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals and statements contained herein, all of which are made solely by each Guaranteeing Subsidiary, with the Trustee assuming no responsibility for their correctness.

Section 4. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 5. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or electronic (i.e., "pdf" or "tif") transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or electronic (i.e., “pdf” or “tif”) transmission shall be deemed to be their original signatures for all purposes.

Section 6. This Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this Supplemental Indenture will henceforth be read together.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

BROWN MACKIE EDUCATION CORPORATION

EDUCATION FINANCE II LLC

SOUTH UNIVERSITY RESEARCH CORPORATION

THE ART INSTITUTES INTERNATIONAL LLC

By: ______________________________
Name: James A. Terrell
Title: Treasurer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: ______________________________

Name:

Title:

[Signature Page to Supplemental Indenture]

THIRD SUPPLEMENTAL INDENTURE

Third Supplemental Indenture (this "**Supplemental Indenture**"), dated as of September 12, 2014, among the subsidiaries of Education Management LLC, a Delaware limited liability company (the "**Company**"), listed on the signature pages hereto (such subsidiaries, collectively, the "**Guaranteeing Subsidiaries**" and each, a "**Guaranteeing Subsidiary**"), and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**").

W I T N E S S E T H

WHEREAS, each of the Company, Education Management Finance Corp. (together with the Company, the "**Issuers**") and the Guarantors (as defined in the Indenture referred to below) has heretofore executed and delivered to the Trustee an indenture (the "**Indenture**"), dated as of March 5, 2013, providing for the issuance of $200,821,063 aggregate principal amount of Senior Cash Pay/PIK Notes due 2018 (the "**Notes**");

WHEREAS, the Indenture provides that under certain circumstances each Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which such Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "**Guarantee**"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. Each Guaranteeing Subsidiary, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 10 thereof.

Section 3. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals and statements contained herein, all of which are made solely by each Guaranteeing Subsidiary, with the Trustee assuming no responsibility for their correctness.

Section 4. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 5. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or electronic (i.e., "pdf" or "tif") transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or electronic (i.e., "pdf" or "tif") transmission shall be deemed to be their original signatures for all purposes.

Section 6. This Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this Supplemental Indenture will henceforth be read together.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

BROWN MACKIE EDUCATION CORPORATION

EDUCATION FINANCE II LLC

SOUTH UNIVERSITY RESEARCH CORPORATION

THE ART INSTITUTES INTERNATIONAL LLC
By:
Name: James A. Terrell
Title: Treasurer

[Signature Page to Supplemental Indenture]

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: ______________________________

Name:

Title:

[Signature Page to Supplemental Indenture]

EXECUTED COPY

PLEDGE AND SECURITY AGREEMENT

dated as of June 1, 2006

between

EACH OF THE GRANTORS PARTY HERETO

and

BNP PARIBAS,

as Collateral Agent

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This **PLEDGE AND SECURITY AGREEMENT**, dated as of June 1, 2006 (this "**Agreement**"), between **EACH OF THE UNDERSIGNED**, whether as an original signatory hereto or as an Additional Grantor (as herein defined) (each, a "**Grantor**"), and **BNP PARIBAS** (**"BNP"**), as collateral agent for the Secured Parties (as herein defined) (in such capacity as collateral agent, the "**Collateral Agent**").

RECITALS:

WHEREAS, reference is made to that certain **CREDIT AND GUARANTY AGREEMENT**, dated as of the date hereof (as it may be amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among Education Management LLC, a Delaware limited liability company ("**Company**"), Education Management Holdings LLC, a Delaware limited liability company ("**Holdings**"), certain Subsidiaries of Holdings, as Guarantors, the Lenders party thereto from time to time, Credit Suisse Securities (USA) LLC, as Syndication Agent, and BNP, as Administrative Agent and as Collateral Agent, and Merrill Lynch Corporation and Bank of America, N.A., as Documentation Agents;

WHEREAS, subject to the terms and conditions of the Credit Agreement, certain Grantors may enter into one or more Swap Agreements with one or more Lender Counterparties;

WHEREAS, in consideration of the extensions of credit and other accommodations of Lenders and Lender Counterparties as set forth in the Credit Agreement and the Swap Agreements, respectively, each Grantor has agreed to secure such Grantor's obligations under the Credit Documents and the Swap Agreements as set forth herein; and

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, each Grantor and the Collateral Agent agree as follows:

SECTION 1. DEFINITIONS; GRANT OF SECURITY.

1.1 **General Definitions**. In this Agreement, the following terms shall have the following meanings:

"**Account Debtor**" shall mean each Person who is obligated on a Receivable or any Supporting Obligation related thereto,

"**Accounts**" shall mean all "accounts" as defined in Article 9 of the UCC.

"**Additional Grantors"** shall have the meaning assigned in Section 5.2.

"**Agreement**" shall have the meaning set forth in the preamble.

"**Cash Proceeds**" shall have the meaning assigned in Section 7.6.

"**Chattel Paper**" shall mean all "chattel paper" as defined in Article 9 of the UCC.

"**Collateral**" shall have the meaning set forth in Section 2.1.

"**Collateral Agent**" shall have the meaning set forth in the preamble.

"**Collateral Records**" shall mean books, records, ledger cards, files, correspondence, customer lists, blueprints, technical specifications, manuals, computer software, computer printouts, tapes, disks and related data processing software and similar items that at any time evidence or contain information relating to any of the Collateral or are otherwise necessary or helpful in the collection thereof or realization thereupon.

"**Collateral Support**" shall mean all property (real or personal) assigned, hypothecated or otherwise securing any Collateral and shall include any security agreement or other agreement granting a lien or security interest in such real or personal property.

"**Commercial Tort Claims**" shall mean all "commercial tort claims" as defined in Article 9 of the UCC, including, without limitation, all commercial tort claims listed on Schedule 4.8.

"**Commodities Accounts**" shall mean all "commodity accounts" as defined in Article 9 of the UCC.

"**Company**" shall have the meaning set forth in the recitals.

"**Controlled Foreign Corporation**" shall mean "controlled foreign corporation" as defined in the Tax Code.

"**Copyright Licenses**" shall mean any and all agreements providing for the granting of any right in or to Copyrights (whether such Grantor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Schedule 4.7(B) .

"**Copyright Security Agreement**" shall mean a Copyright Security Agreement, substantially in the form of Exhibit D, executed and delivered by a Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

"**Copyrights**" shall mean all United States, and foreign copyrights, including but not limited to copyrights in software and databases, and all Mask Works (as defined under 17 U.S.C. 901 of the U.S. Copyright Act), whether registered or unregistered, and, with respect to any and all of the foregoing: (i) all registrations and applications therefor including, without limitation, the registrations and applications referred to in Schedule 4.7(A), (ii) all extensions and renewals thereof, (iii) all rights corresponding thereto throughout the world, (iv) all rights to sue for past, present and future infringements thereof, and (v) all Proceeds of the foregoing, including, without limitation, royalties, income, payments, claims, damages and proceeds of suit.

"**Credit Agreement**" shall have the meaning set forth in the recitals.

"**Deposit Accounts**" shall mean all "deposit accounts" as defined in Article 9 of the UCC.

"**Documents**" shall mean all "documents" as defined in Article 9 of the UCC.

"**Equipment**" shall mean all "equipment" as defined in Article 9 of the UCC.

“**General Intangibles**” shall mean all “general intangibles” as defined in Article 9 of the UCC.

“**Goods**” shall mean all “goods” as defined in Article 9 of the UCC.

“**Grantors**” shall have the meaning set forth in the preamble.

“**Instruments**” shall mean all “instruments” as defined in Article 9 of the UCC.

“**Intellectual Property**” shall mean, collectively, the Copyrights, the Copyright Licenses, the Patents, the Patent Licenses, the Trademarks, the Trademark Licenses, the Trade Secrets, and the Trade Secret Licenses.

“**Intellectual Property Security Agreement**” shall mean a Copyright Security Agreement, a Patent Security Agreement or a Trademark Security Agreement.

“**Inventory**” shall mean all “inventory” as defined in Article 9 of the UCC.

“**Investment Accounts**” shall mean the Securities Accounts, Commodities Accounts and Deposit Accounts.

“**Investment Related Property**” shall mean: (i) all “investment property” (as such term is defined in Article 9 of the UCC) and (ii) all of the following (regardless of whether classified as investment property under the UCC): all Pledged Equity Interests, Pledged Debt, the Investment Accounts and certificates of deposit.

“**Lender**” shall have the meaning set forth in the recitals.

“**Letter of Credit Right**” shall mean “letter-of-credit right” as defined in Article 9 of the UCC.

“**Lien**” shall mean (i) any lien, mortgage, pledge, assignment, security interest, charge or encumbrance of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, and any lease in the nature thereof) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing and (ii) in the case of Pledged Equity Interests, any purchase option, call or similar right of a third party with respect to such Pledged Equity Interests.

“**Patent Licenses**” shall mean all agreements providing for the granting of any right in or to Patents (whether such Grantor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Schedule 4.7(D).

“**Patent Security Agreement**” shall mean a Patent Security Agreement, substantially in the form of Exhibit C, executed and delivered by a Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

“**Patents**” shall mean all United States and foreign patents and certificates of invention, or similar industrial property rights, and applications for any of the foregoing, including, but not limited to: (i) each patent and patent application referred to in Schedule 4.7(C) hereto, (ii) all reissues, divisions, continuations, continuations-in-part, extensions, renewals, and reexaminations thereof, (iii) all rights corresponding thereto throughout the world, (iv) all inventions and improvements described therein, (v) all rights to sue for past, present and future infringements thereof, and (vi) all Proceeds of the foregoing, including, without limitation, royalties, income, payments, claims, damages, and proceeds of suit.

"**Permitted Liens**" shall mean Liens permitted by Section 6.1 of the Credit Agreement.

"**Person**" shall mean and include corporations, limited partnerships, general partnerships, limited liability companies, limited liability partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governmental authorities.

"**Pledge Supplement**" shall mean any supplement to this agreement in substantially the form of Exhibit A.

"**Pledged Debt**" shall mean all Indebtedness owed to such Grantor, including, without limitation, all Indebtedness described on Schedule 4.4 under the heading "Pledged Debt", issued by the obligors named therein, the instruments evidencing such Indebtedness, and all interest, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Indebtedness.

"**Pledged Equity Interests**" shall mean all Pledged Stock, Pledged LLC Interests, Pledged Partnership Interests and Pledged Trust Interests.

"**Pledged LLC Interests**" shall mean all interests in any limited liability company including, without limitation, all limited liability company interests listed on Schedule 4.4 under the heading "Pledged LLC Interests" and the certificates, if any, representing such limited liability company interests and any interest of such Grantor on the books and records of such limited liability company or on the books and records of any securities intermediary pertaining to such interest and, subject to Section 2.2, all dividends, distributions, warrants, rights and options from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such limited liability company interests.

"**Pledged Partnership Interests**" shall mean all interests in any general partnership, limited partnership, limited liability partnership or other partnership including, without limitation, all partnership interests listed on Schedule 4.4 under the heading "Pledged Partnership Interests" and the certificates, if any, representing such partnership interests and any interest of such Grantor on the books and records of such partnership or on the books and records of any securities intermediary pertaining to such interest and, subject to Section 2.2, all dividends, distributions, warrants, rights and options from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such partnership interests.

"**Pledged Stock**" shall mean all shares of capital stock owned by such Grantor, including, without limitation, all shares of capital stock described on Schedule 4.4 under the heading "Pledged Stock", and the certificates, if any, representing such shares and any interest of such Grantor in the entries on the books of the issuer of such shares or on the books of any securities intermediary pertaining to such shares, and, subject to Section 2.2, all dividends, distributions, warrants, rights and options from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares.

"**Pledged Trust Interests**" shall mean all interests in a Delaware business trust or other statutory trust including, without limitation, all trust interests listed on Schedule 4.4 under the heading "Pledged Trust Interests" and the certificates, if any, representing such trust interests and any interest of such Grantor on the books and records of such trust or on the books and records of any securities intermediary pertaining to such interest and all dividends, distributions, cash, warrants, rights, options, instruments, securities and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such trust interests.

"**Proceeds**" shall mean: (i) all "proceeds" as defined in Article 9 of the UCC, (ii) payments or distributions made with respect to any Investment Related Property and (iii) whatever is receivable or received when Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary.

"**Receivables**" shall mean all rights to payment, whether or not earned by performance, for goods or other property sold, leased, licensed, assigned or otherwise disposed of, or services rendered or to be rendered, including, without limitation all such rights constituting or evidenced by any Account, Chattel Paper, Instrument, General Intangible or, subject to Section 2.2, Investment Related Property, together with all of Grantor's rights, if any, in any goods or other property giving rise to such right to payment and all Collateral Support and Supporting Obligations related thereto and all Receivables Records.

"**Receivables Records**" shall mean (i) all original copies of all documents, instruments or other writings or electronic records or other Records evidencing the Receivables, (ii) all books, correspondence, credit or other files, Records, ledger sheets or cards, invoices, and other papers relating to Receivables, including, without limitation, all tapes, cards, computer tapes, computer discs, computer runs, record keeping systems and other papers and documents relating to the Receivables, whether in the possession or under the control of Grantor or any computer bureau or agent from time to time acting for Grantor or otherwise, (iii) all evidences of the filing of financing statements and the registration of other instruments in connection therewith, and amendments, supplements or other modifications thereto, notices to other creditors or secured parties, and certificates, acknowledgments, or other writings, including, without limitation, lien search reports, from filing or other registration officers, (iv) all credit information, reports and memoranda relating thereto and (v) all other written or nonwritten forms of information related in any way to the foregoing or any Receivable.

"**Record**" shall have the meaning specified in Article 9 of the UCC.

"**Recordable Intellectual Property**" shall mean (i) any Patent issued by the United States Patent and Trademark Office and any exclusive Patent License with respect to a Patent so issued, (ii) any Trademark registered with the United States Patent and Trademark Office and any exclusive Trademark License with respect to a Trademark so registered, (iii) any Copyright registered with the United States Copyright Office and any exclusive Copyright License with respect to a Copyright so registered, and all rights in or under any of the foregoing.

"**Secured Obligations**" shall have the meaning assigned in Section 3.1.

"**Secured Parties**" shall mean the Agents, Lenders and the Lender Counterparties and shall include, without limitation, all former Agents, Lenders and Lender Counterparties to the extent that any Obligations owing to such Persons were incurred while such Persons were Agents, Lenders or Lender Counterparties and such Obligations have not been paid or satisfied in full.

"**Securities**" shall mean any stock, shares, partnership interests, voting trust certificates, certificates of interest or participation in any profit sharing agreement or arrangement, options, warrants, bonds, debentures, notes, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

“**Securities Accounts**” shall mean all “securities accounts” as defined in Article 8 of the UCC.

“**Supporting Obligation**” shall mean all “supporting obligations” as defined in Article 9 of the UCC.

“**Tax Code**” shall mean the United States Internal Revenue Code of 1986, as amended from time to time.

“**Trademark Licenses**” shall mean any and all agreements providing for the granting of any right in or to Trademarks (whether such Grantor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Schedule 4.7(F).

“**Trademark Security Agreement**” shall mean a Trademark Security Agreement, substantially in the form of Exhibit E, executed and delivered by a Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

“**Trademarks**” shall mean all United States, and foreign trademarks, trade names, corporate names, company names, business names, fictitious business names, Internet domain names, service marks, certification marks, collective marks, logos, other source or business identifiers, designs and general intangibles of a like nature, all registrations and applications for any of the foregoing including, but not limited to: (i) the registrations and applications referred to in Schedule 4.7(E), (ii) all extensions or renewals of any of the foregoing, (iii) all of the goodwill of the business connected with the use of and symbolized by the foregoing, (iv) the right to sue for past, present and future infringement or dilution of any of the foregoing or for any injury to goodwill, and (v) all Proceeds of the foregoing, including, without limitation, royalties, income, payments, claims, damages, and proceeds of suit.

“**Trade Secret Licenses**” shall mean any and all agreements providing for the granting of any right in or to Trade Secrets (whether such Grantor is licensee or licensor thereunder) including, without limitation, each agreement referred to in Schedule 4.7(G).

“**Trade Secrets**” shall mean all trade secrets and all other confidential or proprietary information and know-how whether or not reduced to a writing or other tangible form, including but not limited to: (i) the right to sue for past, present and future misappropriation or other violation of any trade secret, and (ii) all Proceeds of the foregoing, including, without limitation, royalties, income, payments, claims, damages, and proceeds of suit.

“**UCC**” shall mean the Uniform Commercial Code as in effect from time to time in the State of New York or, when the context implies, the Uniform Commercial Code as in effect from time to time in any other applicable jurisdiction.

“**United States**” shall mean the United States of America.

1.2 **Definitions; Interpretation**. All capitalized terms used herein (including the preamble and recitals hereto) and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement or, if not defined therein, in the UCC. References to “Sections,” “Exhibits” and “Schedules” shall be to Sections, Exhibits and Schedules, as the case may be, of this Agreement unless otherwise specifically provided. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect. Any of the terms defined herein may, unless the context otherwise requires, be used in the singular or the plural, depending on the reference. The use herein of the word “include” or “including”, when following any general statement, term or matter, shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not nonlimiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that fall within the broadest possible scope of such general statement, term or matter. If any conflict or inconsistency exists between this Agreement and the Credit Agreement, the Credit Agreement shall govern. All references herein to provisions of the UCC shall include all successor provisions under any subsequent version or amendment to any Article of the UCC.

SECTION 2. GRANT OF SECURITY.

2.1 **Grant of Security**. Each Grantor hereby grants to the Collateral Agent, for the ratable benefit of the Secured Parties, a security interest in and continuing lien on all of such Grantor's right, title and interest in, to and under all personal property of such Grantor including, but not limited to the following, in each case whether now owned or existing or hereafter acquired or arising and wherever located (all of which, except as provided in Section 2.2, being hereinafter collectively referred to as the "**Collateral**"):

(a) Accounts;

(b) Chattel Paper;

(c) Documents;

(d) General Intangibles;

(e) Goods;

(f) Instruments;

(g) Intellectual Property;

(h) Investment Related Property;

(i) Letter of Credit Rights;

(j) Commercial Tort Claims;

(k) to the extent not otherwise included above, all Collateral Records, Collateral Support and Supporting Obligations relating to any of the foregoing; and

(l) to the extent not otherwise included above, all Proceeds, products, accessions, rents and profits of or in respect of any of the foregoing.

2.2 **Certain Limited Exclusions**. Notwithstanding anything herein to the contrary, in no event shall the Collateral include, and no Grantor shall be deemed to have granted a security interest in, nor shall the security interest granted under Section 2.1 hereof attach to:

(a) any lease, Intellectual Property, General Intangible, license, contract, property right, asset or agreement to which any Grantor is a party or any of its rights or interests thereunder if and for so long as the grant of such security interest shall constitute or result in (i) the abandonment, invalidation or unenforceability of any right, title or interest of any Grantor therein or (ii) in a breach or termination pursuant to the terms of, or a default under, any such lease, license, contract, property right, asset or agreement (other than to the extent that any such term would be rendered ineffective pursuant to Sections 9-406, 9-407, 9-408 or 9-409 of the UCC (or any successor provision or provisions) of any relevant jurisdiction or any other applicable law (including the Bankruptcy Code) or principles of equity), *provided however* that the Collateral shall include and such security interest shall attach immediately at such time as the condition causing such abandonment, invalidation or unenforceability shall be remedied and to the extent severable, shall attach immediately to any portion of such Lease, license, contract, property rights or agreement that does not result in any of the consequences specified in (i) or (ii) above;

(b) in any of the outstanding capital stock of a Controlled Foreign Corporation in excess of 66% of the voting power of all classes of capital stock of such Controlled Foreign Corporation entitled to vote; *provided* that immediately upon the amendment of the Tax Code to allow the pledge of a greater percentage of the voting power of capital stock in a Controlled Foreign Corporation without adverse tax consequences, the Collateral shall include, and the security interest granted by each Grantor shall attach to, such greater percentage of capital stock of each Controlled Foreign Corporation;

(c) including any intent-to-use (ITU) United States trademark application for which an amendment to allege use or statement of use has not been filed under 15 U.S.C. § 1051(c) or 15 U.S.C. § 1051(d), respectively, or, if filed, has not been deemed in conformance with 15 U.S.C. § 1051(a), or examined and accepted, respectively, by the United States Patent and Trademark Office, in each case, only to the extent the grant of security interest in such intent-to-use Trademark is in violation of 15 U.S.C. § 1060 and only unless and until a "Statement of Use" or "Amendment to Allege Use" is filed, has been deemed in conformance with 15 U.S.C. §1051(a) or examined and accepted, respectively, by the United States Patent and Trademark Office at which point such Trademarks shall automatically be included as Collateral;

(d) any property of any person acquired by a Grantor after the Closing Date pursuant to Section 6.2(i) of the Credit Agreement, if and to the extent that, and for so long as, (A) such grant of security interest would violate applicable law or any contractual obligation binding upon such property and (B) such law or obligation existed at the time of the acquisition thereof and was not created or made binding upon such property in contemplation of or in connection with the acquisition of such subsidiary (provided that the foregoing clause (B) shall not apply in the case of a joint venture, including a joint venture that is a Subsidiary); provided that each Grantor shall use its commercially reasonable efforts to avoid any such restriction described in this clause (d); and

(e) any general or limited partnership interests in a general or limited partnership or membership in a limited liability company to the extent not permitted under the applicable organizational instrument pursuant to which such partnership or limited liability company is formed, provided that such Grantor shall, following the request of the Collateral Agent use commercially reasonable efforts to obtain waiver, amendment or other modification of such organizational instrument necessary to allow for the granting of a Lien on such general or limited partnership interests, as the case may be, by such Grantor hereunder.

SECTION 3. SECURITY FOR OBLIGATIONS; GRANTORS REMAIN LIABLE.

3.1 **Security for Obligations**. This Agreement secures, and the Collateral is collateral security for, the prompt and complete payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. §362(a) (and any successor provision thereof)), of all Obligations with respect to every Grantor (the **"Secured Obligations"**).

3.2 **Continuing Liability Under Collateral**. Notwithstanding anything herein to the contrary, (i) each Grantor shall remain liable for all obligations under the Collateral and nothing contained herein is intended or shall be a delegation of duties to the Collateral Agent or any Secured Party, (ii) each Grantor shall remain liable under each of the agreements included in the Collateral, including, without limitation, any agreements relating to Pledged Partnership Interests or Pledged LLC Interests, to perform all of the obligations undertaken by it thereunder all in accordance with and pursuant to the terms and provisions thereof and neither the Collateral Agent nor any Secured Party shall have any obligation or liability under any of such agreements by reason of or arising out of this Agreement or any other document related thereto nor shall the Collateral Agent nor any Secured Party have any obligation to make any inquiry as to the nature or sufficiency of any payment received by it or have any obligation to take any action to collect or enforce any rights under any agreement included in the Collateral, including, without limitation, any agreements relating to Pledged Partnership Interests or Pledged LLC Interests, and (iii) the exercise by the Collateral Agent of any of its rights hereunder shall not release any Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral.

SECTION 4. REPRESENTATIONS AND WARRANTIES AND COVENANTS.

4.1 **Generally**.

(a) Representations and Warranties. Each Grantor hereby represents and warrants, on the Closing Date and on each Credit Date, that:

(i) it owns the Collateral purported to be owned by it or otherwise has the rights it purports to have in each item of Collateral and, as to all Collateral whether now existing or hereafter acquired, will continue to own or have such rights in each item of the Collateral, in each case free and clear of any and all Liens, rights or claims of all other Persons other than Permitted Liens;

(ii) on the Closing Date, it has indicated on Schedule 4.1: (1) the full legal name of such Grantor, (2) the type of organization of such Grantor, (3) the jurisdiction of organization of such Grantor, (4) its organizational identification number and (5) the jurisdiction where the chief executive office or its sole place of business is located.

(iii) (1) upon the filing of all UCC financing statements naming each Grantor as “debtor” and the Collateral Agent as “secured party” and describing the Collateral in the filing office located in state of organization of such Grantor and other filings delivered by each Grantor, (2) upon delivery of all Instruments, Chattel Paper and certificated Pledged Equity Interests and Pledged Debt, (3) upon sufficient identification of Commercial Tort Claims, (4) upon execution of a control agreement establishing the Collateral Agent’s “control” (within the meaning of Section 8-106, 9-106 or 9-104 of the UCC, as applicable) with respect to any Investment Account, (5) upon consent of the issuer with respect to Letter of Credit Rights, and (6) to the extent not subject to Article 9 of the UCC, upon recordation of the security interests granted hereunder in Patents, Trademarks and Copyrights in the applicable intellectual property registries, including but not limited to the United States Patent and Trademark Office and the United States Copyright Office, the security interests granted to the Collateral Agent hereunder constitute valid and perfected first priority Liens (subject in the case of priority only to Permitted Liens and to the rights of the United States government (including any agency or department thereof) with respect to United States government Receivables) on all of the Collateral;

(iv) other than the financing statements filed in favor of the Collateral Agent, no effective UCC financing statement, fixture filing or other instrument similar in effect under any applicable law covering all or any part of the Collateral is on file in any filing or recording office except for (x) financing statements for which proper termination statements have been delivered to the Collateral Agent for filing or for which payoff and Lien release letters containing authority to file such termination statements have been delivered to the Collateral Agent and (y) financing statements filed in connection with Permitted Liens;

(v) no authorization, approval or other action by, and no notice to or filing with, any Governmental Authority or regulatory body is required for the exercise by Collateral Agent of any rights or remedies in respect of any Collateral (whether specifically granted or created hereunder or created or provided for by applicable law), except (A) for the filings contemplated by clause (iii) above and (B) as may be required, in connection with the disposition of any Investment Related Property, by laws generally affecting the offering and sale of Securities;

(vi) except as could not reasonably be expected to result, either individually or in the aggregate in a Material Adverse Effect, all information supplied by any Grantor with respect to any of the Collateral (in each case taken as a whole with respect to any particular Collateral) is accurate and complete in all material respects;

(vii) none of the Collateral constitutes, or is the Proceeds of, "farm products" (as defined in the UCC);

(viii) it does not own any "as extracted collateral" (as defined in the UCC) or any timber to be cut; and

(ix) such Grantor has been duly organized as an entity of the type as set forth opposite such Grantor's name on Schedule 4.1 solely under the laws of the jurisdiction as set forth opposite such Grantor's name on Schedule 4.1 and remains duly existing as such. Such Grantor has not filed any certificates of domestication, transfer or continuance in any other jurisdiction.

(b) Covenants and Agreements. Each Grantor hereby covenants and agrees that:

(i) except for the security interest created by this Agreement, it shall not create or suffer to exist any Lien upon or with respect to any of the Collateral, except Permitted Liens, and such Grantor shall defend the Collateral against all Persons at any time claiming any interest therein;

(ii) except as could not reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect, it shall not produce, use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement or any applicable statute, regulation or ordinance or any policy of insurance covering the Collateral;

(iii) it shall not (x) change such Grantor's name or jurisdiction or organization except in compliance with Section 5.1(f) of the Credit Agreement or (y) change its corporate structure (e.g., by merger, consolidation or otherwise) except in compliance with Section 6.4 of the Credit Agreement; provided that (A) concurrently with such change in name or jurisdiction of organization, merger or consolidation, such Grantor shall execute and deliver to the Collateral Agent a completed Pledge Supplement, substantially in the form of Exhibit A attached hereto, together with all Supplements to Schedules thereto, identifying such new proposed name, jurisdiction of organization or corporate structure and (B) such Grantor shall have taken all actions necessary or advisable to maintain the continuous validity, perfection and the same priority of the Collateral Agent's security interest in the Collateral intended to be granted and agreed to hereby; and

(iv) it shall not sell, transfer or assign (by operation of law or otherwise) any Collateral except as otherwise permitted under the Credit Agreement.

4.2 **Equipment and Inventory**.

(a) Representations and Warranties. Each Grantor represents and warrants, on the Closing Date and on each Credit Date, that except as could not reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect, any Goods now or hereafter produced by any Grantor included in the Collateral have been and will be produced in compliance with the requirements of the Fair Labor Standards Act, as amended.

(b) Covenants and Agreements. Each Grantor covenants and agrees that:

(i) it shall keep correct and accurate records of the Inventory in accordance with its customary practices and procedures, and in any event in conformity with GAAP; and

(ii) it shall not deliver any Document evidencing any Equipment and Inventory to any Person other than the issuer of such Document to claim the Goods evidenced therefor or the Collateral Agent.

4.3 **Receivables**.

(a) Representations and Warranties. Each Grantor represents and warrants, on the Closing Date and on each Credit Date, that no Receivable in excess of $500,000 individually or $2,500,000 in the aggregate is evidenced by, or constitutes, an Instrument or Chattel Paper which has not been delivered to, or otherwise subjected to the control of, the Collateral Agent to the extent required by, and in accordance with Section 4.3(c).

(b) Covenants and Agreements: Each Grantor hereby covenants and agrees that:

(i) it shall not amend, modify, terminate or waive any provision of any Receivable in any manner that could reasonably be expected to have a Material Adverse Effect. Other than in the ordinary course of business, during the continuance of an Event of Default, such Grantor shall not (A) grant any extension or renewal of the time of payment of any Receivable, (B) compromise or settle any dispute, claim or legal proceeding with respect to any Receivable for less than the total unpaid balance thereof, (C) release, wholly or partially, any Person liable for the payment thereof, or (D) allow any credit or discount thereon; and

(ii) except as otherwise provided in this subsection, each Grantor shall use its commercially reasonable efforts to collect all amounts due or to become due to such Grantor under any Receivable and to exercise each material right it may have under any Receivable, in each case, at its own expense. If so required by the Collateral Agent at any time after the occurrence and during the continuance of an Event of Default, any payments of Receivables received by any Grantor shall be forthwith (and in any event within two (2) Business Days) deposited by such Grantor in the exact form received, duly indorsed by such Grantor to the Collateral Agent if required, in a Securities Account or Deposit Account maintained under the control of the Collateral Agent, and until so turned over, all amounts and proceeds (including checks and other instruments) received by such Grantor in respect of the Receivables, any Supporting Obligation or Collateral Support shall be received in trust for the benefit of the Collateral Agent hereunder and shall be segregated from other funds of such Grantor and such Grantor shall not adjust, settle or compromise the amount or payment of any

Receivable, or release wholly or partly any Account Debtor or obligor thereof; or allow any credit or discount thereon.

(c) Delivery and Control of Receivables. With respect to any Receivables in excess of $500,000 individually or $2,500,000 in the aggregate that is evidenced by, or constitutes, Chattel Paper or Instruments, each Grantor shall cause each originally executed copy thereof to be delivered to the Collateral Agent (or its agent or designee) appropriately indorsed to the Collateral Agent or indorsed in blank: (i) with respect to any such Receivables in existence on the date hereof; on or prior to the date hereof and (ii) with respect to any such Receivables hereafter arising, within ten (10) days of such Grantor acquiring rights therein. Any Receivable that is evidenced by, or constitutes, Chattel Paper or Instruments or would constitute "electronic chattel paper" under Article 9 of the UCC which would not otherwise required to be delivered in accordance with this subsection (c) shall be delivered or subjected to such control upon request of the Collateral Agent at any time during the continuance of an Event of Default.

4.4 **Investment Related Property**.

4.4.1 Investment Related Property Generally

(a) Covenants and Agreements. Each Grantor hereby covenants and agrees that:

(i) Subject to the limitation described in Section 2.2(b) with respect to the capital stock of any Controlled Foreign Corporation, in the event it acquires rights in any Investment Related Property constituting Pledged Equity Interests or Pledged Debt, after the date hereof, it shall comply with the requirements of Section 4.4.1(b) with respect to such new Investment Related Property. Notwithstanding the foregoing, it is understood and agreed that the security interest of the Collateral Agent shall attach to all Investment Related Property immediately upon any Grantor's acquisition of rights therein and shall not be affected by the failure of any Grantor to comply with Section 4.4.1.(b);

(ii) except as provided in the next sentence, in the event such Grantor receives any dividends, interest or distributions on any Investment Related Property, or any securities or other property upon the merger, consolidation, liquidation or dissolution of any issuer of any Investment Related Property, then (A) such dividends, interest or distributions and securities or other property shall be included in the definition of Collateral without further action and (B) such Grantor shall within ten (10) days take all steps, if any, necessary or advisable to ensure the validity, perfection, priority and, if applicable, control of the Collateral Agent over such Investment Related Property (including, without limitation, delivery thereof to the Collateral Agent) and pending any such action such Grantor shall be deemed to hold such dividends, interest, distributions, securities or other property in trust for the benefit of the Collateral Agent and shall segregate such dividends, distributions, Securities or other property from all other property of such Grantor. Notwithstanding the foregoing, so long as no Event of Default shall have occurred and be continuing, the Collateral Agent authorizes each Grantor to retain all cash dividends and distributions and all payments of interest and principal;

(iii) each Grantor consents to the grant by each other Grantor of a Security Interest in all Investment Related Property to the Collateral Agent.

(b) Delivery and Control.

(i) Each Grantor agrees that with respect to any Investment Related Property in which it currently has rights it shall comply with the provisions of this Section 4.4.1(b) on or before the Closing Date and with respect to any Investment Related Property hereafter acquired by such Grantor it shall comply with the provisions of this Section 4.4.1(b) promptly upon acquiring rights therein, in each case in form and substance reasonably satisfactory to the Collateral Agent. With respect to any Investment Related Property that is represented by a certificate or that is an "instrument" (other than any Investment Related Property credited to a Securities Account) it shall cause such certificate or instrument to be delivered to the Collateral Agent, indorsed in blank by an "effective indorsement" (as defined in Section 8-107 of the UCC), regardless of whether such certificate constitutes a "certificated security" for purposes of the UCC. With respect to any Investment Related Property that is an "uncertificated security" for purposes of the UCC (other than any "uncertificated securities" credited to a Securities Account), it shall cause the issuer (in the case of Pledged Equity Interests issued by a Subsidiary of a Grantor, mutual funds and other open-ended investments funds) and it shall use its commercially reasonable efforts to cause the issuer (in the case of all other Investment Related Property) of such uncertificated security to either (A) register the Collateral Agent as the registered owner thereof on the books and records of the issuer or (B) execute an agreement substantially in the form of Exhibit B hereto, pursuant to which such issuer agrees to comply with the Collateral Agent's instructions with respect to such uncertificated security without further consent by such Grantor.

(c) Voting and Distributions.

(i) Unless an Event of Default shall have occurred and be continuing and the Collateral Agent shall have given written notice thereof:

(A) except as otherwise provided under the covenants and agreements relating to investment related property in this Agreement or elsewhere herein or in the Credit Agreement, each Grantor shall be entitled to exercise or refrain from exercising any and all voting and other consensual rights pertaining to the Investment Related Property or any part thereof;

(B) the Collateral Agent shall promptly execute and deliver (or cause to be executed and delivered) to each Grantor all proxies, and other instruments as such Grantor may from time to time reasonably request for the purpose of enabling such Grantor to exercise the voting and other consensual rights when and to the extent which it is entitled to exercise pursuant to clause (A) above; and

(C) Upon the occurrence and during the continuance of an Event of Default and written notice thereof by the Collateral Agent:

(1) all rights of each Grantor to exercise or refrain from exercising the voting and other consensual rights which it would otherwise be entitled to exercise pursuant hereto shall cease and all such rights shall thereupon become vested in the Collateral Agent who shall thereupon have the sole right to exercise such voting and other consensual rights; provided that, unless otherwise directed by the Required Lenders, the Collateral Agent shall have the right from time to time following the occurrence and during the continuance of an Event of Default to permit the Grantors to exercise such rights; and

(2) in order to permit the Collateral Agent to exercise the voting and other consensual rights which it may be entitled to exercise pursuant hereto and to receive all dividends and other distributions which it may be entitled to receive hereunder: (x) each Grantor shall promptly execute and deliver (or cause to be executed and delivered) to the Collateral Agent all proxies, dividend payment orders and other instruments as the

Collateral Agent may from time to time reasonably request and (y) each Grantor acknowledges that the Collateral Agent may utilize the power of attorney set forth in Section ý6.1.

After all Events of Default have been cured or waived and the Company has delivered to the Collateral Agent a certificate to that effect, each Grantor will have the right to exercise the voting and consensual rights that such Grantor would otherwise be entitled to exercise pursuant to the terms of Section 4.4.1(c)(i)(A).

4.4.2 Pledged Equity Interests

(a) Representations and Warranties. Each Grantor hereby represents and warrants, on the Closing Date and on each Credit Date, that:

(i) on the Closing Date, Schedule 4.4 sets forth under the headings "Pledged Stock, "Pledged LLC Interests," "Pledged Partnership Interests" and "Pledged Trust Interests," respectively, all of the Pledged Stock, Pledged LLC Interests, Pledged Partnership Interests and Pledged Trust Interests owned by any Grantor and such Pledged Equity Interests constitute the percentage of issued and outstanding shares of stock, percentage of membership interests, percentage of partnership interests or percentage of beneficial interest of the respective issuers thereof indicated on such Schedule;

(ii) it is the record and beneficial owner of the Pledged Equity Interests free of all Liens, rights or claims of other Persons other than Permitted Liens; and none of such Pledged Equity Interests is subject to any option to purchase or similar right of any Person, except as permitted by the Credit Agreement;

(iii) without limiting the generality of Section 4.1(a)(v), except as described in Schedule 4.4, on the Closing Date, no consent of any Person including any other general or limited partner, any other member of a limited liability company, any other shareholder or any other trust beneficiary is necessary or desirable in connection with the creation, perfection or first priority status of the security interest of the Collateral Agent in any Pledged Equity Interests or the exercise by the Collateral Agent of the voting or other rights provided for in this Agreement or the exercise of remedies in respect thereof;

(v) except as described in Schedule 4.4, on the Closing Date, none of the Pledged LLC Interests nor Pledged Partnership Interests are or represent interests in issuers that: (a) are registered as investment companies or (b) are dealt in or traded on securities exchanges or markets; and

(vi) except as otherwise set forth on Schedule 4.4, on the Closing Date, all of the Pledged LLC Interests and Pledged Partnership Interests are or represent interests in issuers that have opted to be treated as securities under the uniform commercial code of any jurisdiction.

(b) Covenants and Agreements. Each Grantor hereby covenants and agrees that:

(i) Other than as permitted under the Credit Agreement or without the prior written consent of the Collateral Agent, it shall not vote to enable or take any other action to cause any issuer of any Pledged Partnership Interests or Pledged LLC Interests which are not securities (for purposes of the UCC) on the date hereof to elect or otherwise take any action to cause such Pledged Partnership Interests or Pledged LLC Interests to be treated as securities for purposes of the UCC; *provided,* *however*, notwithstanding the foregoing, if any issuer of any Pledged Partnership Interests or Pledged LLC Interests takes any such action in violation of the foregoing in this clause (i), such Grantor shall promptly notify the Collateral Agent in writing of any such election or action and, in such event, shall take all steps necessary or advisable to establish the Collateral Agent's "control" thereof; and

(ii) each Grantor consents to the grant by each other Grantor of a security interest in all Investment Related Property to the Collateral Agent and, without limiting the foregoing, consents to the transfer of any Pledged Partnership Interest and any Pledged LLC Interest to the Collateral Agent or its nominee following the occurrence and during the continuance of an Event of Default and to the substitution of the Collateral Agent or its nominee as a partner in any partnership or as a member in any limited liability company with all the rights and powers related thereto.

4.4.3 Pledged Debt

(a) Representations and Warranties. Each Grantor hereby represents and warrants, on the Closing Date and each Credit Date, that Schedule 4.4 sets forth under the heading "Pledged Debt" all of the Pledged Debt that is intercompany Indebtedness and otherwise in excess of $500,000 individually owned by such Grantor on the Closing Date and, to the best of such Grantor's knowledge, all of such Pledged Debt has been duly authorized, authenticated or issued, and delivered and is the legal, valid and binding obligation of the issuers thereof subject to the effect of applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting rights of creditors and general principles of equity and is not in default and constitutes all of the issued and outstanding inter-company Indebtedness;

(b) Covenants and Agreements. Each Grantor hereby covenants and agrees that: (i) it shall notify the Collateral Agent of any default under any Pledged Debt that has caused, either in any individual case or in the aggregate, a Material Adverse Effect and (ii) upon the occurrence and during the continuance of an Event of Default and after notice from the Collateral Agent thereof, all Indebtedness represented by any Pledged Debt shall be fully subordinated to the indefeasible payment in full in cash of the Secured Obligations.

4.5 **[Reserved]**.

4.6 **Letter of Credit Rights**.

(a) Representations and Warranties. Except with respect to Letters of Credit issued under the Credit Agreement, each Grantor hereby represents and warrants, on the Closing Date and on each Credit Date, that:

(i) all material letters of credit in excess of $5,000,000 individually to which such Grantor has rights as a beneficiary on the Closing Date is listed on Schedule 4.6 hereto; and

(ii) it has obtained the consent of each issuer of any letter of credit in an amount in excess of $5,000,000 in the aggregate to the assignment of the proceeds of the letter of credit to the Collateral Agent.

(b) Covenants and Agreements. Except with respect to Letters of Credit issued under the Credit Agreement, each Grantor hereby covenants and agrees that with respect to any letter of credit in an amount in excess of $5,000,000 in the aggregate hereafter arising it shall obtain the consent of the issuer thereof to the assignment of the proceeds of the letter of credit to the Collateral Agent and shall deliver to the Collateral Agent a completed Pledge Supplement, substantially in the form of Exhibit A attached hereto, together with all Supplements to Schedules thereto.

4.7 **Intellectual Property**.

(a) Representations and Warranties. Except as disclosed in Schedule 4.7(H), each Grantor hereby represents and warrants, on the Closing Date and on each Credit Date, that:

(i) Schedule 4.7 sets forth a true and complete list of (A) all United States, state and foreign registrations of and applications to register Patents, Trademarks, and Copyrights owned by each Grantor and (B) all Patent Licenses, Trademark Licenses, Trade Secret Licenses and Copyright Licenses material to the business of such Grantor;

(ii) it owns or has the valid right to use all other Intellectual Property used in or necessary to conduct its business, free and clear of all Liens and licenses, except for Permitted Liens, license agreements executed in the normal course of business consistent with past practice and the licenses set forth on Schedule 4.7(B), (D), (F) and (G);

(iii) all registrations of and applications to register Copyrights, Trademarks and Patents and applications thereof owned by any Grantor have not been abandoned and have not been adjudged invalid or unenforceable, in whole or in part, and each Grantor has filed all necessary documents and has paid all renewal, maintenance, and other fees and taxes required to maintain each and every registration of and application to register the Copyrights, Trademarks and Patents listed on Schedule 4.7 in full force and effect, except to the extent that a particular Patent, Trademark or Copyright is not material to, or useful in, the business of such Grantor;

(iv) except as set forth in Schedule 4.7(H) and except for matters that are not material to such Grantor, no holding, decision, or judgment has been rendered in any action or proceeding before any court or administrative authority and no action or proceeding before any court or administrative authority is pending or, to the best of such Grantor's knowledge, threatened challenging the validity of, such Grantor's right to register, or such Grantor's rights to own any material Intellectual Property owned by such Grantor;

(v) all registrations and applications for Copyrights, Patents and Trademarks listed on Schedule 4.7 are standing in the name of each Grantor, and none of the Trademarks, Patents, Copyrights or Trade Secrets has been licensed by any Grantor to any Affiliate or third party, except as disclosed in Schedule 4.7(B), (D), (F), or (G) and except for licenses executed in the ordinary course of business consistent with past practice;

(vi) except as set forth in Schedule 4.7(H), and except as would not have, individually or in the aggregate, a Material Adverse Effect, to the best of each Grantor's knowledge, the conduct of such Grantor's business does not infringe upon or otherwise violate any Trademark, Patent, Copyright or Trade Secret owned by a third party and no claim is pending against Grantor that any Intellectual Property owned or used by Grantor violates the asserted rights of any third party; and

(vii) to the best of each Grantor's knowledge, no third party is infringing upon or otherwise violating any rights in any material Intellectual Property owned or used by such Grantor;

(b) Covenants and Agreements. Each Grantor hereby covenants and agrees as follows until the payment in full of the Secured Obligations and termination of the Commitments:

(i) it shall not, without the prior consent of the Collateral Agent, which shall not be unreasonably withheld or delayed, do any act or omit to do any act whereby any of the Intellectual Property which is, in such Grantor's reasonable business judgment, material to the business of Grantor may lapse, or be abandoned, dedicated to the public, or become unenforceable, or which would adversely affect the validity, grant, or enforceability of the security interest granted therein;

(ii) it shall, with respect to any Trademarks which are, in such Grantor's reasonable business judgment, material to the business of any Grantor, maintain such Trademarks in full force free from any adjudication of abandonment or invalidity for non-use and maintain the level of the quality of products sold and services rendered under any of such Trademark at a level at least substantially consistent with the quality of such products and services as of the date hereof, and each Grantor shall take all steps reasonably necessary to insure that licensees of such Trademarks use such consistent standards of quality;

(iii) it shall, within thirty (30) days of the creation or acquisition of any Copyrightable work the registration of which is material to the business of Grantor, apply to register the Copyright in the United States Copyright Office when such registration is deemed necessary by the Grantor exercising its reasonable business judgment;

(iv) it shall promptly notify the Collateral Agent if it knows that any item of the Intellectual Property that is material to the business of any Grantor may become (A) abandoned or dedicated to the public or placed in the public domain other than by expiration in the normal course (and not in violation of clause (v) below), (B) invalid or unenforceable, or (C) subject to any adverse determination or development (including the institution of proceedings) in any action or proceeding (other than routine office actions and the like) in the United States Patent and Trademark Office, the United States Copyright Office, any state registry, any foreign counterpart of the foregoing, or any court;

(v) on the Closing Date, each applicable Grantor will sign and deliver to the Collateral Agent Intellectual Property Security Agreements with respect to all Recordable Intellectual Property then owned by it;

(vi) it shall take all commercially reasonable steps in the United States Patent and Trademark Office, the United States Copyright Office, any state registry or any foreign counterpart of the foregoing, to maintain and prosecute any application or registration of each Trademark, Patent, and Copyright owned by any Grantor and material to its business which is now or shall become included in the Intellectual Property including, but not limited to, those items on Schedule 4.7(A), (C) and (E);

(vii) in the event that a Grantor becomes aware that any material Intellectual Property owned by or exclusively licensed to any Grantor is being infringed, misappropriated, or diluted by a third party, such Grantor shall, as it deems necessary in the exercise of its reasonable business judgment, promptly take all commercially reasonable actions as are appropriate in the circumstances to stop such infringement, misappropriation, or dilution and protect its rights in such Intellectual Property including, but not limited to, the initiation of a suit for injunctive relief and to recover damages;

(viii) it shall on a semi-annual basis report to the Collateral Agent (A) the filing of any application to register any Intellectual Property owned by the Grantor with the United States Patent and Trademark Office, the United States Copyright Office, or any state registry or foreign counterpart of the foregoing (whether such application is filed by such Grantor or through any agent, employee, licensee, or designee thereof) and (B) the registration of any Intellectual Property owned by the Grantor by any such office, and upon the request of the Collateral Agent, it shall execute and deliver to the Collateral Agent a completed Pledge Supplement, substantially in the form of Exhibit A attached hereto, together with all Supplements to Schedules thereto;

(ix) it shall, promptly upon the reasonable request of the Collateral Agent, execute and deliver to the Collateral Agent any document reasonably required to acknowledge, confirm, register, record, or perfect the Collateral Agent's interest in any part of the Intellectual Property, whether now owned or hereafter acquired;

(x) except with the prior consent of the Collateral Agent or as permitted under the Credit Agreement, each Grantor shall not execute or file any financing statements or other similar documents or instruments that remain in effect, except financing statements or similar documents or instruments filed or to be filed in favor of the Collateral Agent and each Grantor shall not sell, assign, transfer, grant an exclusive license otherwise outside of the ordinary course of business, consistent with past practice, grant any option, or create or suffer to exist any Lien upon or with respect to any material Intellectual Property, except for the Lien created or permitted by and under this Agreement and the other Credit Documents;

(xi) it shall take all commercially reasonable steps reasonably necessary to protect the secrecy of all Trade Secrets, including, without limitation, entering into confidentiality agreements with relevant employees, except to the extent that a Trade Secret is no longer material or necessary to the business of such Grantor or the Trade Secret no longer derives substantial value from not being known to the public, as determined by such Grantor in its reasonable business judgment; and

(xii) it shall use proper statutory notice in connection with its use of any material registered Copyrights, Trademarks and Patents (and, if applicable, applications thereof) where necessary and proper in its reasonable business judgment.

4.8 **Commercial Tort Claims**.

(a) Representations and Warranties. Each Grantor hereby represents and warrants, on the Closing Date and on each Credit Date, that Schedule 4.8 sets forth all Commercial Tort Claims of each Grantor on the Closing Date in excess of $5,000,000 in the aggregate; and

(b) Covenants and Agreements. Each Grantor hereby covenants and agrees that with respect to any Commercial Tort Claim in excess of $5,000,000 in the aggregate hereafter arising it shall deliver to the Collateral Agent a completed Pledge Supplement, substantially in the form of Exhibit A attached hereto, together with all Supplements to Schedules thereto, identifying such new Commercial Tort Claims.

SECTION 5. ACCESS; RIGHT OF INSPECTION AND FURTHER ASSURANCES; ADDITIONAL GRANTORS.

5.1 **Further Assurances**.

(a) Each Grantor agrees that from time to time, at the expense of such Grantor, that it shall promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Collateral Agent may reasonably request, in order to create and/or maintain the validity, perfection or priority of and protect any security interest granted hereby or to enable the Collateral

Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, each Grantor shall:

(i) file (or authorize the filing of) such financing or continuation statements, or amendments thereto, and execute and deliver such other agreements, instruments, endorsements, powers of attorney or notices, as may be necessary or desirable, or as the Collateral Agent may reasonably request, in order to perfect and preserve the security interests granted or purported to be granted hereby; and

(ii) take all actions reasonable and necessary to ensure the recordation of appropriate evidence of the liens and security interest granted hereunder in the Copyrights, Patents and Trademarks with any intellectual property registry in which said Copyrights, Patents or Trademarks is registered or in which an application for registration is pending including, without limitation, the United States Patent and Trademark Office, the United States Copyright Office, the various Secretaries of State, and the foreign counterparts on any of the foregoing.

(b) Each Grantor hereby authorizes the Collateral Agent to file a Record or Records, including, without limitation, financing or continuation statements, and amendments thereto, in any jurisdictions and with any filing offices as the Collateral Agent may determine, in its sole discretion, are necessary or advisable to perfect the security interest granted to the Collateral Agent herein. Such financing statements may describe the Collateral in the same manner as described herein or may contain an indication or description of collateral that describes such property in any other manner as the Collateral Agent may determine, in its sole discretion, is necessary, advisable or prudent to ensure the perfection of the security interest in the Collateral granted to the Collateral Agent herein, including, without limitation, describing such property as “all assets” or “all personal property, whether now owned or hereafter acquired.” Each Grantor shall furnish to the Collateral Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Collateral Agent may reasonably request.

(c) Each Grantor hereby authorizes the Collateral Agent to modify this Agreement after obtaining such Grantor’s approval of or signature to such modification by amending Schedule 4.7 to include reference to any right, title or interest in any existing Intellectual Property or any Intellectual Property acquired or developed by any Grantor after the execution hereof or to delete any reference to any right, title or interest in any Intellectual Property in which any Grantor no longer has or claims any right, title or interest.

5.2 **Additional Grantors**. From time to time subsequent to the date hereof, additional Persons may become parties hereto as additional Grantors (each, an “**Additional Grantor**”), by executing a Counterpart Agreement. Upon delivery of any such counterpart agreement to the Collateral Agent, notice of which is hereby waived by Grantors, each Additional Grantor shall be a Grantor and shall be as fully a party hereto as if Additional Grantor were an original signatory hereto. Each Grantor expressly agrees that its obligations arising hereunder shall not be affected or diminished by the addition or release of any other Grantor hereunder, nor by any election of Collateral Agent not to cause any Subsidiary of Company to become an Additional Grantor hereunder. This Agreement shall be fully effective as to any Grantor that is or becomes a party hereto regardless of whether any other Person becomes or fails to become or ceases to be a Grantor hereunder.

SECTION 6. COLLATERAL AGENT APPOINTED ATTORNEY-IN-FACT.

6.1 **Power of Attorney**. Each Grantor hereby irrevocably appoints the Collateral Agent (such appointment being coupled with an interest) as such Grantor’s attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor, the Collateral Agent or otherwise, from time to time in the Collateral Agent's reasonable discretion to take any action and to execute any instrument that the Collateral Agent may deem reasonably necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, the following:

(a) upon the occurrence and during the continuance of any Event of Default, to obtain and adjust insurance required to be maintained by such Grantor or paid to the Collateral Agent pursuant to the Credit Agreement;

(b) upon the occurrence and during the continuance of any Event of Default, to ask for, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(c) upon the occurrence and during the continuance of any Event of Default, to receive, endorse and collect any drafts or other instruments, documents and chattel paper in connection with clause (b) above;

(d) upon the occurrence and during the continuance of any Event of Default, to file any claims or take any action or institute any proceedings that the Collateral Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Collateral Agent with respect to any of the Collateral;

(e) to prepare and file any UCC financing statements against such Grantor as debtor;

(f) to prepare, sign, and file for recordation in any registry or similar office, appropriate evidence of the lien and security interest granted herein in the Copyrights, Patents or Trademarks in the name of such Grantor as debtor;

(g) upon the occurrence and during the continuance of any Event of Default to take or cause to be taken all actions necessary to perform or comply or cause performance or compliance with the terms of this Agreement, including, without limitation, access to pay or discharge taxes or Liens (other than Permitted Liens) levied or placed upon or threatened against the Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by the Collateral Agent in its sole discretion, any such payments made by the Collateral Agent to become obligations of such Grantor to the Collateral Agent, due and payable immediately without demand; and

(h) upon the occurrence and during the continuance of any Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Collateral Agent were the absolute owner thereof for all purposes, and to do, at the Collateral Agent's option and such Grantor's expense, at any time or from time to time, all acts and things that the Collateral Agent deems reasonably necessary to protect, preserve or realize upon the Collateral and the Collateral Agent's security interest therein in accordance with the terms of this Agreement, all as fully and effectively as such Grantor might do.

6.2 **No Duty on the Part of Collateral Agent or Secured Parties**. The powers conferred on the Collateral Agent hereunder are solely to protect the interests of the Secured Parties in the Collateral and shall not impose any duty upon the Collateral Agent or any Secured Party to exercise any such powers. The Collateral Agent and the Secured Parties shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct, as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

SECTION 7. REMEDIES.

7.1 **Generally**.

(a) If any Event of Default shall have occurred and be continuing, the Collateral Agent may exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it at law or in equity, all the rights and remedies of a Secured Party on default under the UCC (whether or not the UCC applies to the affected Collateral) to collect, enforce or satisfy any Secured Obligations then owing, whether by acceleration or otherwise, and also may pursue any of the following separately, successively or simultaneously:

(i) require any Grantor to, and each Grantor hereby agrees that it shall at its expense and promptly upon request of the Collateral Agent forthwith, assemble all or part of the Collateral as directed by the Collateral Agent and make it available to the Collateral Agent at a place to be designated by the Collateral Agent that is reasonably convenient to both parties;

(ii) enter onto the property where any Collateral is located and take possession thereof with or without judicial process;

(iii) prior to the disposition of the Collateral, store, process, repair or recondition the Collateral or otherwise prepare the Collateral for disposition in any manner to the extent the Collateral Agent deems appropriate; and

(iv) without notice except as specified below or under the UCC, sell, assign, lease, license (on an exclusive or nonexclusive basis) or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as the Collateral Agent may deem commercially reasonable.

(b) Upon the occurrence and during the continuance of an Event of Default, the Collateral Agent or any Secured Party may be the purchaser of any or all of the Collateral at any public or private (to the extent to the portion of the Collateral being privately sold is of a kind that is customarily sold on a recognized market or the subject of widely distributed standard price quotations) sale in accordance with the UCC and the Collateral Agent, as collateral agent for and representative of the Secured Parties, shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such sale made in accordance with the UCC, to use and apply any of the Secured Obligations as a credit on account of the purchase price for any Collateral payable by the Collateral Agent at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of any Grantor, and each Grantor hereby waives (to the extent permitted by applicable law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days notice to such Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Each Grantor agrees that it would not be commercially unreasonable for the Collateral Agent to dispose of the Collateral or any portion thereof by using Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets. Each Grantor hereby waives any claims against the Collateral Agent arising by reason of the fact that the price at which any Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if the Collateral Agent accepts the first offer received and does not offer such Collateral to more than one offeree, *provided* this sentence shall not restrict the operation of Section 9-615(1) of the UCC. If the proceeds of any sale or other disposition of the Collateral are insufficient to pay all the Secured Obligations, Grantors shall be liable for the deficiency and the reasonable fees of any attorneys employed by the Collateral Agent to collect such deficiency. Each Grantor further agrees that a breach of any of the covenants contained in this Section will cause irreparable injury to the Collateral Agent, that the Collateral Agent has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section shall be specifically enforceable against such Grantor, and such Grantor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no default has occurred giving rise to the Secured Obligations becoming due and payable prior to their stated maturities. Nothing in this Section shall in any way alter the rights of the Collateral Agent hereunder.

(c) Upon the occurrence and during the continuance of an Event of Default, the Collateral Agent may sell the Collateral without giving any warranties as to the Collateral. The Collateral Agent may specifically disclaim or modify any warranties of title or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(d) Upon the occurrence and during the continuance of an Event of Default, the Collateral Agent shall have no obligation to marshal any of the Collateral.

7.2 **Application of Proceeds**. Except as expressly provided elsewhere in this Agreement, all proceeds received by the Collateral Agent in respect of any sale, any collection from, or other realization upon all or any part of the Collateral, in each case pursuant to its exercise of remedies under this Section 7.1, shall be applied in full or in part by the Collateral Agent against, the Secured Obligations in the following order of priority: first, to the payment of all reasonable costs and expenses of such sale, collection or other realization, including reasonable fees and out-of-pocket expenses to the Collateral Agent and its agents and counsel, and all other reasonable out-of-pocket expenses, liabilities and advances made or incurred by the Collateral Agent in connection therewith, and all amounts for which the Collateral Agent is entitled to indemnification hereunder (in its capacity as the Collateral Agent and not as a Lender) and all advances made by the Collateral Agent hereunder for the account of the applicable Grantor, and to the payment of all reasonable costs and expenses paid or incurred by the Collateral Agent in connection with the exercise of any right or remedy hereunder or under the Credit Agreement, all in accordance with the terms hereof or thereof; second, to the extent of any excess of such proceeds, to the payment of all other Secured Obligations for the ratable benefit of the Lenders and the Lender Counterparties; and third, to the extent of any excess of such proceeds, to the payment to or upon the order of such Grantor or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

7.3 **Sales on Credit**. If Collateral Agent sells any of the Collateral upon credit, Grantor will be credited only with payments actually made by purchaser and received by Collateral Agent and applied to indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, Collateral Agent may resell the Collateral and Grantor shall be credited with proceeds of the sale.

7.4 **Investment Related Property**. Each Grantor recognizes that, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws, the Collateral Agent may be compelled, with respect to any sale of all or any part of the Investment Related Property conducted without prior registration or qualification of such Investment Related Property under the Securities Act and/or such state securities laws, to limit purchasers to those who will agree, among other things, to acquire the Investment Related Property for their own account, for investment and not with a view to the distribution or resale thereof. Each Grantor acknowledges that any such private sale may be at prices and on terms less favorable than those obtainable through a public sale without such restrictions (including a public offering made pursuant to a registration statement under the Securities Act) and, notwithstanding such circumstances, each Grantor agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that the Collateral Agent shall have no obligation to engage in public sales and no obligation to delay the sale of any Investment Related Property for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it. If the Collateral Agent determines to exercise its right to sell any or all of the Investment Related Property, upon written request, each Grantor shall and shall cause each issuer of any Pledged Stock to be sold hereunder, each partnership and each limited liability company from time to time to furnish to the Collateral Agent all such information as the Collateral Agent may request in order to determine the number and nature of interest, shares or other instruments included in the Investment Related Property which may be sold by the Collateral Agent in exempt transactions under the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, as the same are from time to time in effect.

7.5 **Intellectual Property.**

(a) Anything contained herein to the contrary notwithstanding, upon the occurrence and during the continuance of an Event of Default:

(i) the Collateral Agent shall have the right (but not the obligation) to bring suit or otherwise commence any action or proceeding in the name of any Grantor, the Collateral Agent or otherwise, in the Collateral Agent's sole discretion, to enforce any Intellectual Property, in which event such Grantor shall, at the request of the Collateral Agent, do any and all lawful acts and execute any and all documents required by the Collateral Agent in aid of such enforcement and such Grantor shall promptly, upon demand, reimburse and indemnify the Collateral Agent as provided in Section 10 hereof in connection with the exercise of its rights under this Section;

(ii) upon written demand from the Collateral Agent, each Grantor shall grant, assign, convey or otherwise transfer to the Collateral Agent or such Collateral Agent's designee all of such Grantor's right, title and interest in and to the Intellectual Property and shall execute and deliver to the Collateral Agent such documents as are necessary or appropriate to carry out the intent and purposes of this Agreement;

(iii) each Grantor agrees that such an assignment and/or recording shall be applied to reduce the Secured Obligations outstanding only to the extent that the Collateral Agent (or any Secured Party) receives cash proceeds in respect of the sale of, or other realization upon, the Intellectual Property; and

(iv) the Collateral Agent shall have the right to notify, or require each Grantor to notify, any obligors with respect to amounts due or to become due to such Grantor in respect of any licensed Intellectual Property, of the existence of the security interest created herein, to direct such obligors to make payment of all such amounts directly to the Collateral Agent, and, upon such notification and at the expense of such Grantor, to enforce collection of any such amounts and to adjust, settle or compromise the amount or payment thereof; in the same manner and to the same extent as such Grantor might have done;

(1) all amounts and proceeds (including checks and other instruments) received by Grantor in respect of amounts due to such Grantor in respect of the Collateral or any portion thereof shall be received in trust for the benefit of the Collateral Agent hereunder, shall be segregated from other funds of such Grantor and shall be forthwith paid over or delivered to the Collateral Agent in the same form as so received (with any necessary endorsement) to be held as cash Collateral and applied as provided by Section 7.6 hereof; and

(2) Grantor shall not adjust, settle or compromise the amount or payment of any such amount or release wholly or partly any obligor with respect thereto or allow any credit or discount thereon.

(b) If (i) an Event of Default shall have occurred and, by reason of cure, waiver, modification, amendment or otherwise, no longer be continuing, (ii) no other Event of Default shall have occurred and be continuing, (iii) an assignment or other transfer to the Collateral Agent of any rights, title and interests in and to the Intellectual Property shall have been previously made and shall have become absolute and effective, and (iv) the Secured Obligations shall not have become immediately due and payable, upon the written request of any Grantor, the Collateral Agent shall promptly execute and deliver to such Grantor, at such Grantor's sole cost and expense, such assignments or other transfer as may be necessary to reassign to such Grantor any such rights, title and interests as may have been assigned to the Collateral Agent as aforesaid, subject to any disposition thereof that may have been made by the Collateral Agent; *provided*, after giving effect to such reassignment, the Collateral Agent's security interest granted pursuant hereto, as well as all other rights and remedies of the Collateral Agent granted hereunder, shall continue to be in full force and effect; and *provided further*, the rights, title and interests so reassigned shall be free and clear of any other Liens granted by or on behalf of the Collateral Agent and the Secured Parties.

(c) Solely for the purpose of enabling the Collateral Agent to exercise rights and remedies under this Section 7 and at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to the Collateral Agent, to the extent it has the right to do so, a nonexclusive license (exercisable without payment of royalty or other compensation to such Grantor but only exercisable so long as an Event of Default has occurred and is continuing), subject, in the case of Trademarks, to the grant of sufficient rights to quality control and inspection in favor of such Grantor to avoid the risk of invalidation of said Trademarks, to use, operate under, license, or sublicense any Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located.

7.6 **Cash Proceeds**. In addition to the rights of the Collateral Agent specified in Section 4.3 with respect to payments of Receivables, all proceeds of any Collateral received by any Grantor consisting of cash, checks and other non/cash items (collectively, "**Cash Proceeds**") (i) except as specified in clause (ii), shall be applied by such Grantor in a manner not inconsistent with the Credit Agreement, and (ii) if an Event of Default shall have occurred and be continuing, shall be held by such Grantor in trust for the Collateral Agent, segregated from other funds of such Grantor, and, unless otherwise agreed in writing by the Collateral Agent, shall, forthwith upon receipt by such Grantor, unless otherwise provided pursuant to Section 4.4.1(a)(ii), be turned over to the Collateral Agent in the exact form received by such Grantor (duly indorsed by such Grantor to the Collateral Agent, if required). Any Cash Proceeds received by the Collateral Agent (whether from a Grantor or otherwise): (x) if no Event of Default shall have occurred and be continuing, shall be held by the Collateral Agent for the ratable benefit of the Secured Parties, as collateral security for the Secured Obligations (whether matured or unmatured) and (y) if an Event of Default shall have occurred and be continuing, may, in the sole discretion of the Collateral Agent, (A) be held by the Collateral Agent for the ratable benefit of the Secured Parties, as collateral security for the Secured Obligations (whether matured or unmatured) and/or (B) then or at any time thereafter may be applied by the Collateral Agent against the Secured Obligations then due and owing. Prior to an Event of Default, any cash proceeds received by the Collateral Agent shall be paid to the Grantors.

SECTION 8. COLLATERAL AGENT.

The Collateral Agent has been appointed to act as Collateral Agent hereunder by Lenders and, by their acceptance of the benefits hereof, the other Secured Parties. The Collateral Agent shall be obligated, and shall have the right hereunder, to make demands, to give notices, to exercise or refrain from exercising any rights, and to take or refrain from taking any action (including, without limitation, the release or substitution of Collateral), solely in accordance with this Agreement and the Credit Agreement. In furtherance of the foregoing provisions of this Section, each Secured Party, by its acceptance of the benefits hereof, agrees that it shall have no right individually to realize upon any of the Collateral hereunder, it being understood and agreed by such Secured Party that all rights and remedies hereunder may be exercised solely by the Collateral Agent for the benefit of Secured Parties in accordance with the terms of this Section. Collateral Agent may resign at any time by giving prior written notice thereof to Lenders and the Grantors, and Collateral Agent may be removed at any time with or without cause by an instrument or concurrent instruments in writing delivered to the Grantors and Collateral Agent signed by the Requisite Lenders. Upon any such notice of resignation or any such removal, Collateral Agent immediately shall be discharged from its duties and obligations under this Agreement and Requisite Lenders shall have the right, upon notice to the Administrative Agent, to appoint a successor Collateral Agent. Upon the acceptance of any appointment as Collateral Agent hereunder by a successor Collateral Agent, that successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Collateral Agent under this Agreement, and the retiring or removed Collateral Agent under this Agreement shall promptly at the Grantors' expense (i) transfer to such successor Collateral Agent all sums, Securities and other items of Collateral held hereunder, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Collateral Agent under this Agreement, and (ii) execute and deliver to such successor Collateral Agent or otherwise authorize the filing of such amendments to financing statements, and take such other actions, as may be necessary in connection with the assignment to such successor Collateral Agent of the security interests created hereunder. After any retiring or removed Collateral Agent's resignation or removal hereunder as the Collateral Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was the Collateral Agent hereunder.

SECTION 9. CONTINUING SECURITY INTEREST; TRANSFER OF LOANS.

This Agreement shall create a continuing security interest in the Collateral and shall remain in full force and effect until the payment in full of all Secured Obligations, the cancellation or termination of the Commitments and the cancellation or expiration of all outstanding Letters of Credit (or the cash collateralization thereof), be binding upon each Grantor, its successors and assigns and inure, together with the rights and remedies of the Collateral Agent hereunder, to the benefit of the Collateral Agent and its successors, transferees and assigns for the benefit and on behalf of the Secured Parties. Without limiting the generality of the foregoing, but subject to the terms of the Credit Agreement, any Lender may assign or otherwise transfer any Loans held by it to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to Lenders herein or otherwise. Upon the payment in full of all Secured Obligations, the cancellation or termination of the Commitments and the cancellation or expiration of all outstanding Letters of Credit (or the cash collateralization thereof), the security interest granted hereby (other than with respect to any cash collateralization in respect of Letters of Credit) shall automatically terminate hereunder and of record and all rights to the Collateral shall revert to Grantors. Upon any such termination the Collateral Agent shall, at Grantors' expense, promptly execute and deliver to Grantors or otherwise authorize the filing of such documents as Grantors shall reasonably request, including financing statement amendments to evidence such termination. Upon any disposition of property permitted by the Credit Agreement (including a sale or other disposition of a Subsidiary, the Liens granted herein shall be deemed to be automatically released and such property shall automatically revert to the applicable Grantor with no further action on the part of any Person. The Collateral Agent shall, at Grantor's expense, execute and deliver or otherwise authorize the filing of such documents as Grantors shall reasonably request, in form and substance reasonably satisfactory to the Collateral Agent, including financing statement amendments to evidence such release.

SECTION 10. STANDARD OF CARE; COLLATERAL AGENT MAY PERFORM.

The powers conferred on the Collateral Agent hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Collateral Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Collateral Agent accords its own property. Neither the Collateral Agent nor any of its directors, officers, employees or agents shall be liable for failure to, except to the extent such delay or failure arises from the gross negligence or willful misconduct of the Collateral Agent, as determined by a court of competent jurisdiction in a final, non-appealable judgment or order, demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or otherwise. If any Grantor fails to perform any agreement contained herein, the Collateral Agent may itself perform, or cause performance of, such agreement, and the expenses of the Collateral Agent incurred in connection therewith shall be payable by each Grantor under Section 10.2 of the Credit Agreement.

SECTION 11. MISCELLANEOUS.

Any notice required or permitted to be given under this Agreement shall be given in accordance with Section 10.1 of the Credit Agreement. No failure or delay on the part of the Collateral Agent in the exercise of any power, right or privilege hereunder or under any other Credit Document shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other power, right or privilege. All rights and remedies existing under this Agreement and the other Credit Documents are cumulative to, and not exclusive of, any rights or remedies otherwise available. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists. This Agreement shall be binding upon and inure to the benefit of the Collateral Agent and Grantors and their respective successors and assigns. No Grantor shall, without the prior written consent of the Collateral Agent given in accordance with the Credit Agreement, assign any right, duty or obligation hereunder. This Agreement and the other Credit Documents embody the entire agreement and understanding between Grantors and the Collateral Agent and supersede all prior agreements and understandings between such parties relating to the subject matter hereof and thereof. Accordingly, the Credit Documents may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties. This Agreement may be executed in one or more counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document and may be delivered by facsimile or e-mail.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CONFLICTS OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 AND SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATION LAWS).

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, each Grantor and the Collateral Agent have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

EDUCATION MANAGEMENT LLC

By:

Name: John R. McKernan, Jr.
Title: Chairman and Chief Executive Officer

EDUCATION MANAGEMENT HOLDINGS LLC

By:

Name: John R. McKernan, Jr.
Title: President and Chief Executive Officer

EDUCATION MANAGEMENT FINANCE CORP.

By:

Name: John R. McKernan, Jr.
Title: President and Chief Executive Officer

ACADEMIC REVIEW, INC.

ASSOCIATION FOR ADVANCED TRAINING IN THE BEHAVIORAL SCIENCES

ARGOSY UNIVERSITY FAMILY CENTER, INC.

BROWN MACKIE HOLDING COMPANY

THE CONNECTING LINK, INC.

EDMC MARKETING AND ADVERTISING, INC.

EDMC AVIATION, INC.

HIGHER EDUCATION SERVICES, INC.

MCM UNIVERSITY PLAZA, INC.

By:

Name: J. Devitt Kramer
Title: Secretary

AID RESTAURANT, INC.

By:

Name: Simon Lumley
Title: President, Secretary and Treasurer

AIH RESTAURANT, INC.

By:

Name: Larry Horn
Title: President, Secretary and Treasurer

AIIM RESTAURANT, INC.

By:

Name: Joseph L. Marzano, Jr.
Title: President, Secretary and Treasurer

BNP PARIBAS,
as Collateral Agent

By:
Name:
Title:

By:
Name:
Title:

SCHEDULE 4.1

TO PLEDGE AND SECURITY AGREEMENT

GENERAL INFORMATION

Full Legal Name, Type of Organization, Jurisdiction of Organization, Chief Executive Office/Sole Place of Business and Organizational Identification Number of each Grantor:

Full Legal Name	Type of Organization	Jurisdiction of Organization	Chief Executive Office/Sole Place of Business	Organization I.D. #

SCHEDULE 4.4

TO PLEDGE AND SECURITY AGREEMENT

INVESTMENT RELATED PROPERTY

Pledged Stock:

Grantor	Stock Issuer	Class of Stock	Certificated (Y/N)	Stock Certificate No.	Par Value	No. of Pledged Stock	% of Outstanding Stock of the Stock Issuer

Pledged LLC Interests:

Grantor	Limited Liability Company	Certificated (Y/N)	Certificate No. (if any)	No. of Pledged Units	% of Outstanding LLC Interests of the Limited Liability Company

Pledged Partnership Interests:

Grantor	Partnership	Type of Partnership Interests (e.g., general or limited)	Certificated (Y/N)	Certificate No. (if any)	% of Outstanding Partnership Interests of Partnership

Pledged Trust Interests:

Grantor	Trust	Class of Trust Interests	Certificated (Y/N)	Certificate No. (if any)	% of Outstanding Trust Interests of the Trust

Pledged Debt:

Grantor	Issuer	Original Principal Amount	Outstanding Principal Balance	Issue Date	Maturity Date

SCHEDULE 4.5

TO PLEDGE AND SECURITY AGREEMENT

Name of Grantor	Description of Material Contract

SCHEDULE 4.6

TO PLEDGE AND SECURITY AGREEMENT

Name of Grantor	Description of Letters of Credit

SCHEDULE 4.7

TO PLEDGE AND SECURITY AGREEMENT

INTELLECTUAL PROPERTY

(A) Copyrights

(B) Copyright Licenses

(C) Patents

(D) Patent Licenses

(E) Trademarks

(F) Trademark Licenses

(G) Trade Secret Licenses

(H) Intellectual Property Exceptions

SCHEDULE 4.8

TO PLEDGE AND SECURITY AGREEMENT

Name of Grantor	Commercial Tort Claims

EXHIBIT A

TO PLEDGE AND SECURITY AGREEMENT

PLEDGE SUPPLEMENT

This **PLEDGE SUPPLEMENT**, dated as of [mm/dd/yy], is delivered by **[NAME OF GRANTOR]**, a **[NAME OF STATE OF INCORPORATION]** [corporation] (the "**Grantor**") pursuant to the Pledge and Security Agreement, dated as of June 1, 2006 (as it may be from time to time amended, restated, modified or supplemented, the "**Security Agreement**"), among Education Management LLC, the other Grantors named therein, and BNP Paribas, as the Collateral Agent. Capitalized terms used herein not otherwise defined herein shall have the meanings ascribed thereto in the Security Agreement.

Grantor hereby confirms the grant to the Collateral Agent set forth in the Security Agreement of, and does hereby grant to the Collateral Agent, a security interest in all of Grantor's right, title and interest in and to all Collateral to secure the Secured Obligations, in each case whether now or hereafter existing or in which Grantor now has or hereafter acquires an interest and wherever the same may be located. Grantor represents and warrants that the attached Supplements to Schedules accurately and completely set forth all additional information required pursuant to the Security Agreement and hereby agrees that such Supplements to Schedules shall constitute part of the Schedules to the Security Agreement.

IN WITNESS WHEREOF, Grantor has caused this Pledge Supplement to be duly executed and delivered by its duly authorized officer as of the date first written above.

[NAME OF GRANTOR]

By: ______________________________

Name:

Title:

SUPPLEMENT TO SCHEDULE 4.1

TO PLEDGE AND SECURITY AGREEMENT

Additional Information:

Full Legal Name, Type of Organization, Jurisdiction of Organization, Chief Executive Office/Sole Place of Business and Organizational Identification Number of each Grantor:

Full Legal Name	Type of Organization	Jurisdiction of Organization	Chief Executive Office/Sole Place of Business	Organization I.D.#

SUPPLEMENT TO SCHEDULE 4.4

TO PLEDGE AND SECURITY AGREEMENT

Additional Information:

Pledged Stock:

Pledged Partnership Interests:

Pledged LLC Interests:

Pledged Trust Interests:

Pledged Debt:

SUPPLEMENT TO SCHEDULE 4.6

TO PLEDGE AND SECURITY AGREEMENT

Additional Information:

Name of Grantor	Description of Letters of Credit

SUPPLEMENT TO SCHEDULE 4.7

TO PLEDGE AND SECURITY AGREEMENT

Additional Information:

(A) Copyrights

(B) Copyright Licenses

(C) Patents

(D) Patent Licenses

(E) Trademarks

(F) Trademark Licenses

(G) Trade Secret Licenses

(H) Intellectual Property Exceptions

SUPPLEMENT TO SCHEDULE 4.8

TO PLEDGE AND SECURITY AGREEMENT

Additional Information:

Name of Grantor	Commercial Tort Claims

EXHIBIT B

TO PLEDGE AND SECURITY AGREEMENT

UNCERTIFICATED SECURITIES CONTROL AGREEMENT

Uncertificated Securities Control Agreement, dated as of [________________], 20[__] (as amended, supplemented or otherwise modified from time to time, this "**Agreement**") among [________________] (the "**Pledgor**"), BNP PARIBAS, in its capacity as collateral agent for the Secured Parties, including its successors and assigns from time to time (the "**Collateral Agent**"), and [_______________], a [_________] corporation (the "**Issuer**"). Capitalized terms used but not defined herein shall have the meaning assigned in the Pledge and Security Agreement dated as of June 1, 2006 (as amended, restated, supplemented or otherwise modified from time to time, the "**Security Agreement**") among the Pledgor, the other Grantors party thereto and the Collateral Agent. All references herein to the "**UCC**" shall mean the Uniform Commercial Code as in effect in the State of New York.

Section l. Registered Ownership of Shares. The Issuer hereby confirms and agrees that as of the date hereof the Pledgor is the registered owner of [_______] shares of the Issuer's [common] stock (the "**Pledged Shares**") and the Issuer shall not change the registered owner of the Pledged Shares without the prior written consent of the Collateral Agent.

Section 2. Instructions. If at any time the Issuer shall receive instructions originated by the Collateral Agent relating to the Pledged Shares, the Issuer shall comply with such instructions without further consent by the Pledgor or any other person.

Section 3. Additional Representations and Warranties of the Issuer. The Issuer hereby represents and warrants to the Collateral Agent:

(a) It has not entered into, and until the termination of this agreement will not without the consent of the Collateral Agent enter into, any agreement with any other person relating the Pledged Shares pursuant to which it has agreed to comply with instructions issued by such other person; and

(b) It has not entered into, and until the termination of this agreement will not without the consent of the Collateral Agent enter into, any agreement with the Pledgor purporting to limit or condition the obligation of the Issuer to comply with Instructions as set forth in Section 2 hereof.

(c) Except for the claims and interests of the Collateral Agent and of the Pledgor in the Pledged Shares, the Issuer does not know of any claim to, or interest in, the Pledged Shares. If any person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against the Pledged Shares, the Issuer will promptly notify the Collateral Agent and the Pledgor thereof.

(d) This Uncertificated Securities Control Agreement is the valid and legally binding obligation of the Issuer.

Section 4. Choice of Law. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS TO THE EXTENT THAT THE SAME ARE NOT MANDATORILY APPLICABLE BY STATUTE AND THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

Section 5. Amendment; Modification. No amendment or modification of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all of the parties hereto.

Section 6. Voting Rights. Until such time as the Collateral Agent shall otherwise instruct the Issuer in writing the Pledgor shall have the right to vote the Pledged Shares.

Section 7. Successors; Assignment. The terms of this Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors or heirs and personal representatives who obtain such rights solely by operation of law. The Collateral Agent may assign its rights hereunder in accordance with the Credit Agreement only with the express written consent of the Issuer and by sending written notice of such assignment to the Pledgor.

Section 8. Indemnification of Issuer. The Pledgor and the Collateral Agent hereby agree that (a) the Issuer is released from any and all liabilities to the Pledgor and the Collateral Agent arising from the terms of this Agreement and the compliance of the Issuer with the terms hereof, except to the extent that such liabilities arise from the Issuer's negligence and (b) the Pledgor, its successors and assigns shall at all times indemnify and save harmless the Issuer from and against any and all claims, actions and suits of others arising out of the terms of this Agreement or the compliance of the Issuer with the terms hereof, except to the extent that such arises from the Issuer's negligence or willful misconduct, and from and against any and all liabilities, losses, damages, costs, charges, reasonable counsel fees and other expenses of every nature and character arising by reason of the same, until the termination of this Agreement.

Section 9. Notices. Each notice hereunder shall be in writing and may be personally served, telexed or sent by telefacsimile or certified or registered United States mail or courier service and shall be deemed to have been given when delivered in person or by courier service and signed for against receipt thereof; upon receipt of telefacsimile or telex, or three Business Days after being sent by certified or registered United States mail, return receipt requested, postage prepaid and properly addressed to the party at the address set forth below.

Pledgor:	[Name] [Address] Attention: Telecopier:
Collateral Agent:	[Name] [Address] Attention: Telecopier:

Issuer: [Name]

[Address]

Attention:

Telecopier:

Any party may change its address for notices in the manner set forth above.

Section 10. Termination. The obligations of the Issuer to the Collateral Agent pursuant to this Control Agreement shall continue in effect until the security interests of the Collateral Agent in the Pledged Shares have been terminated pursuant to the terms of the Security Agreement and the Collateral Agent has notified the Issuer of such termination in writing. The Collateral Agent agrees to provide Notice of Termination in substantially the form of Exhibit A hereto to the Issuer promptly upon the request of the Pledgor on or after the termination of the Collateral Agent's security interest in the Pledged Shares pursuant to the terms of the Security Agreement. The termination of this Control Agreement shall not terminate the Pledged Shares or alter the obligations of the Issuer to the Pledgor pursuant to any other agreement with respect to the Pledged Shares.

Section 11. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing and delivering one or more counterparts.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Uncertificated Securities Control Agreement to be executed as of the date first above written by their respective officers thereunto duly authorized.

[NAME OF PLEDGOR]

By: ______________________________

Name:

Title:

[NAME OF COLLATERAL AGENT],

Collateral Agent

By: ______________________________

Name:

Title:

[NAME OF ISSUER]

By: ______________________________

Name:

Title:

EXHIBIT A

TO UNCERTIFICATED SECURITIES ACCOUNT CONTROL AGREEMENT

[Letterhead of Collateral Agent]

[Date]

[Name and Address of Issuer]

Attention: [________]

Re: Termination of Control Agreement

You are hereby notified that the Uncertificated Securities Control Agreement between you, [Name of Pledgor] (the "Pledgor") and the undersigned (a copy of which is attached) is terminated and you have no further obligations to the undersigned pursuant to such Agreement. Notwithstanding any previous instructions to you, you are hereby instructed to accept all future directions with respect to Pledged Shares (as defined in the Uncertificated Securities Control Agreement) from the Pledgor. This notice terminates any obligations you may have to the undersigned with respect to the Pledged Shares; however, nothing contained in this notice shall alter any obligations which you may otherwise owe to the Pledgor pursuant to any other agreement.

You are instructed to deliver a copy of this notice by facsimile transmission to the Pledgor.

Very truly yours,

[NAME OF COLLATERAL AGENT],

as Collateral Agent

By: ______________________________
Name:
Title:

EXHIBIT C

TO PLEDGE AND SECURITY AGREEMENT

PATENT SECURITY AGREEMENT

(Patents, Patent Applications and Exclusive Patent Licenses)

WHEREAS, [name of Lien Grantor], a _____________ corporation[1] (herein referred to as the "**Lien Grantor**") owns, or in the case of licenses is a party to, the Patent Collateral (as defined below);

WHEREAS, Education Management LLC (the "**Company**"), Education Management Holdings LLC ("**Holdings**"), Certain Subsidiaries of Holdings, as Guarantors, the Lenders party thereto from time to time, Credit Suisse Securities (USA) LLC, as Syndication Agent, and BNP Paribas, as Administrative Agent and as Collateral Agent, and Merrill Lynch Corporation and Bank of America, N.A. as Documentation Agents are parties to a Credit Agreement dated as of June 1, 2006 (as amended from time to time, the "**Credit Agreement**"; the terms defined therein and not otherwise defined herein being used herein as therein defined); and

WHEREAS, pursuant to (i) a Pledge and Security Agreement dated as of June 1, 2006 (as amended and/or supplemented from time to time, the "**Security Agreement**") among the Company, the Grantors party thereto and BNP Paribas, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "**Grantee**"), and (ii) certain other Security Documents (including this Agreement), the Lien Grantor has guaranteed certain obligations of the Company and secured such guarantee (the "**Lien Grantor's Secured Guarantee**") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of the Lien Grantor, including all right, title and interest of the Lien Grantor in, to and under the Patent Collateral (as defined below);

WHEREAS, the Lien Grantor has duly authorized the execution, delivery and performance of this Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in order to induce the Lenders to make Loans and other financial accommodations to Company pursuant to the Credit Agreement, the Lien Grantor agrees, for the benefit of the Secured Parties as follows:

1. Grant of Security Interest. For the benefit of the Secured Parties to secure payment, performance and observance of the Secured Obligations, the Lien Grantor grants to the Grantee, a continuing security interest in, and a right of set-off against, and agrees to assign, transfer and convey, upon demand made upon the occurrence and during the continuance of an Event of Default without requiring further action by either party and to be effective upon such demand, all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "**Patent Collateral**"), whether now owned or existing or hereafter acquired or arising:

[1] Modify as needed if the Lien Grantor is not a corporation.

(i) each Patent owned by the Lien Grantor, including, without limitation, each Patent referred to in Schedule 1 hereto; and

(ii) each exclusive Patent License to which the Lien Grantor is a party, including, without limitation, each exclusive Patent License identified in Schedule 1 hereto.

The Lien Grantor irrevocably constitutes and appoints the Grantee and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full power and authority in the name of the Lien Grantor or in the Grantee's name, from time to time, in the Grantee's discretion, so long as any Event of Default shall have occurred and be continuing, to take with respect to the Patent Collateral any and all appropriate action which the Lien Grantor might take with respect to the Patent Collateral and to execute any and all documents and instruments which may be necessary or desirable to carry out the terms of this Patent Security Agreement and to accomplish the purposes hereof.

Except to the extent expressly permitted in the Security Agreement or the Credit Agreement, the Lien Grantor agrees not to sell, license, exchange, assign or otherwise transfer or dispose of, or grant any rights with respect to, or mortgage or otherwise encumber, any of the Patent Collateral.

2. Purpose. This Agreement has been executed and delivered by the Lien Grantor for the purpose of recording the grant of security interest herein with the United States Patent and Trademark Office. The security interest granted hereby has been granted to the Grantee in connection with the Security Agreement and is expressly subject to the terms and conditions thereof. The Security Agreement (and all rights and remedies of the Lenders thereunder) shall remain in full force and effect in accordance with its terms.

3. Acknowledgement. The foregoing security interest is granted in conjunction with the security interests granted by the Lien Grantor to the Grantee pursuant to the Security Agreement. The Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect to the security interest in the Patent Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which (including the remedies provided for therein) are incorporated by reference herein as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the terms of the Security Agreement, the terms of the Security Agreement shall govern.

4. Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Agreement, including its preamble and recitals, have the meanings provided by reference in the Security Agreement.

5. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together constitute one and the same original.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their respective officers as of the __ day of [month], [year].

[NAME OF LIEN GRANTOR]

By: ______________________________

Name:

Title:

Acknowledged:

BNP PARIBAS,

as Collateral Agent

By: ______________________________

Name:

Title:

By: ______________________________

Name:

Title:

**Schedule 1
to Patent
Security Agreement**

[NAME OF LIEN GRANTOR]

PATENTS AND DESIGN PATENTS

Patent No.	Issued	Expiration	Country	Title

PATENT APPLICATIONS

Case No.	Serial No.	Country	Date	Filing Title

EXCLUSIVE PATENT LICENSES

Name of Agreement	Parties Licensor/Licensee	Date of Agreement	Exclusively Licensed Patent/s

EXHIBIT D

TO PLEDGE AND SECURITY AGREEMENT

COPYRIGHT SECURITY AGREEMENT

(Copyright Registrations and Exclusive Copyright Licenses)

WHEREAS, [name of Lien Grantor], a _____________ corporation[1] (herein referred to as the "**Lien Grantor**") owns, or in the case of licenses is a party to, the Copyright Collateral (as defined below);

WHEREAS, Education Management LLC (the "**Company**"), Education Management Holdings LLC ("**Holdings**"), Certain Subsidiaries of Holdings, as Guarantors, the Lenders party thereto from time to time, Credit Suisse Securities (USA) LLC, as Syndication Agent, and BNP Paribas, as Administrative Agent and as Collateral Agent, and Merrill Lynch Corporation and Bank of America, N.A. as Documentation Agents are parties to a Credit Agreement dated as of June 1, 2006 (as amended from time to time, the "**Credit Agreement**"; the terms defined therein and not otherwise defined herein being used herein as therein defined); and

WHEREAS, pursuant to (i) Pledge and Security Agreement dated as of June 1, 2006 (as amended and/or supplemented from time to time, the "**Security Agreement**") among the Company, the Grantors party thereto and BNP Paribas, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "**Grantee**"), and (ii) certain other Security Documents (including this Agreement), the Lien Grantor has guaranteed certain obligations of the Company and secured such guarantee (the "**Lien Grantor's Secured Guarantee**") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of the Lien Grantor, including all right, title and interest of the Lien Grantor in, to and under the Copyright Collateral (as defined below);

WHEREAS, the Lien Grantor has duly authorized the execution, delivery and performance of this Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in order to induce the Lenders to make Loans and other financial accommodations to Company pursuant to the Credit Agreement, the Lien Grantor agrees, for the benefit of the Secured Parties as follows:

1. Grant of Security Interest. For the benefit of the Secured Parties to secure payment, performance and observance of the Secured Obligations, the Lien Grantor pledges and grants to the Grantee, a continuing security interest in, and a right of set-off against, and agrees to assign, transfer and convey, upon demand made upon the occurrence and during the continuance of an Event of Default without requiring further action by either party and to be effective upon such demand, all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "**Copyright Collateral**"), whether now owned or existing or hereafter acquired or arising:

[1] Modify as needed if the Lien Grantor is not a corporation.

(i) each Copyright owned by the Lien Grantor, including, without limitation, each Copyright registration or application therefor referred to in Schedule 1 hereto; and

(ii) each exclusive Copyright License (as defined in the Security Agreement) to which the Lien Grantor is a party, including, without limitation, each exclusive Copyright License identified in Schedule 1 hereto.

The Lien Grantor irrevocably constitutes and appoints the Grantee and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full power and authority in the name of the Lien Grantor or in the Grantee's name, from time to time, in the Grantee's discretion, so long as any Event of Default shall have occurred and be continuing, to take with respect to the Copyright Collateral any and all appropriate action which the Lien Grantor might take with respect to the Copyright Collateral and to execute any and all documents and instruments which may be necessary or desirable to carry out the terms of this Copyright Security Agreement and to accomplish the purposes hereof.

Except to the extent expressly permitted in the Security Agreement or the Credit Agreement, the Lien Grantor agrees not to sell, license, exchange, assign or otherwise transfer or dispose of, or grant any rights with respect to, or mortgage or otherwise encumber, any of the Copyright Collateral.

2. Purpose. This Agreement has been executed and delivered by the Lien Grantor for the purpose of recording the grant of security interest herein with the United States Copyright Office. The security interest granted hereby has been granted to the Grantee in connection with the Security Agreement and is expressly subject to the terms and conditions thereof. The Security Agreement (and all rights and remedies of the Lenders thereunder) shall remain in full force and effect in accordance with its terms.

3. Acknowledgement. The foregoing security interest is granted in conjunction with the security interests granted by the Lien Grantor to the Grantee pursuant to the Security Agreement. The Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect to the security interest in the Copyright Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which (including the remedies provided for therein) are incorporated by reference herein as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the terms of the Security Agreement, the terms of the Security Agreement shall govern.

4. Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Agreement, including its preamble and recitals, have the meanings provided by reference in the Security Agreement.

5. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together constitute one and the same original.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the ___ day of [month], [year].

[NAME OF LIEN GRANTOR]

By: ______________________________

Name:

Title:

Acknowledged:

BNP PARIBAS,

as Collateral Agent

By: ______________________________

Name:

Title:

By: ______________________________

Name:

Title:

Schedule 1
to Copyright
Security Agreement

[NAME OF LIEN GRANTOR]

COPYRIGHT REGISTRATIONS

Registration No.	Registration Date	Title	Expiration Date

EXCLUSIVE COPYRIGHT LICENSES

Name of Agreement	Parties Licensor/Licensee	Date of Agreement	Exclusively Licensed Copyright/s

EXHIBIT E

TO PLEDGE AND SECURITY AGREEMENT

TRADEMARK SECURITY AGREEMENT

(Trademark Registrations, Trademark Applications and Exclusive Trademark Licenses)

WHEREAS, [name of Lien Grantor], a _____________ corporation[1] (herein referred to as the "**Lien Grantor**") owns, or in the case of licenses is a party to, the Trademark Collateral (as defined below);

WHEREAS, Education Management LLC (the "**Company**"), Education Management Holdings LLC ("**Holdings**"), Certain Subsidiaries of Holdings, as Guarantors, the Lenders party thereto from time to time, Credit Suisse Securities (USA) LLC, as Syndication Agent, and BNP Paribas, as Administrative Agent and as Collateral Agent, and Merrill Lynch Corporation and Bank of America, N.A. as Documentation Agents are parties to a Credit Agreement dated as of June 1, 2006 (as amended from time to time, the "**Credit Agreement**"; the terms defined therein and not otherwise defined herein being used herein as therein defined); and

WHEREAS, pursuant to (i) a Pledge and Security Agreement dated as of June 1, 2006 (as amended and/or supplemented from time to time, the "**Security Agreement**") among the Company, the Grantors party thereto and BNP Paribas, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "**Grantee**"), and (ii) certain other Security Documents (including this Agreement), the Lien Grantor has guaranteed certain obligations of the Company and secured such guarantee (the "**Lien Grantor's Secured Guarantee**") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of the Lien Grantor, including all right, title and interest of the Lien Grantor in, to and under the Trademark Collateral (as defined below);

WHEREAS, the Lien Grantor has duly authorized the execution, delivery and performance of this Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in order to induce the Lenders to make Loans and other financial accommodations to Company pursuant to the Credit Agreement, the Lien Grantor agrees, for the benefit of the Secured Parties as follows:

1. Grant of Security Interest. For the benefit of the Secured Parties to secure payment, performance and observance of the Secured Obligations, the Lien Grantor pledges and grants to the Grantee, a continuing security interest in, and a right of set-off against, and agrees to assign, transfer and convey, upon demand made upon the occurrence and during the continuance of an Event of Default without requiring further action by either party and to be effective upon such demand, all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "**Trademark Collateral**"), whether now owned or existing or hereafter acquired or arising:

[1] Modify as needed if the Lien Grantor is not a corporation.

(i) each Trademark owned by the Lien Grantor, including, without limitation, each Trademark registration and application referred to in Schedule 1 hereto, but in all cases excluding any intent-to-use (ITU) United States trademark application for which an amendment to allege use or statement of use has not been filed under 15 U.S.C. § 1051(c) or 15 U.S.C. § 1051(d), respectively, or, if filed, has not been deemed in conformance with 15 U.S.C. § 1051(a), or examined and accepted, respectively, by the United States Patent and Trademark Office, in each case, only to the extent the grant of security interest in such intent-to-use Trademark is in violation of 15 U.S.C. § 1060 and only unless and until a "Statement of Use" or "Amendment to Allege Use" is filed, has been deemed in conformance with 15 U.S.C. §1051(a) or examined and accepted, respectively, by the United States Patent and Trademark Office at which point such Trademarks shall automatically be subject to the security interest granted herein and be deemed to be included as Trademark Collateral; and

(ii) each exclusive Trademark License to which the Lien Grantor is a party, including, without limitation, each exclusive Trademark License identified in Schedule 1 hereto.

The Lien Grantor irrevocably constitutes and appoints the Grantee and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full power and authority in the name of the Lien Grantor or in the Grantee's name, from time to time, in the Grantee's discretion, so long as any Event of Default shall have occurred and be continuing, to take with respect to the Trademark Collateral any and all appropriate action which the Lien Grantor might take with respect to the Trademark Collateral and to execute any and all documents and instruments which may be necessary or desirable to carry out the terms of this Trademark Security Agreement and to accomplish the purposes hereof.

Except to the extent expressly permitted in the Security Agreement or the Credit Agreement, the Lien Grantor agrees not to sell, license, exchange, assign or otherwise transfer or dispose of, or grant any rights with respect to, or mortgage or otherwise encumber, any of the Trademark Collateral.

2. Purpose. This Agreement has been executed and delivered by the Lien Grantor for the purpose of recording the grant of security interest herein with the United States Patent and Trademark Office. The security interest granted hereby has been granted to the Grantee in connection with the Security Agreement and is expressly subject to the terms and conditions thereof. The Security Agreement (and all rights and remedies of the Lenders thereunder) shall remain in full force and effect in accordance with its terms.

3. Acknowledgement. The foregoing security interest is granted in conjunction with the security interests granted by the Lien Grantor to the Grantee pursuant to the Security Agreement. The Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect to the security interest in the Trademark Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which (including the remedies provided for therein) are incorporated by reference herein as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the terms of the Security Agreement, the terms of the Security Agreement shall govern.

4. Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Agreement, including its preamble and recitals, have the meanings provided by reference in the Security Agreement.

5. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together constitute one and the same original.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the ____ day of [month], [year].

[NAME OF LIEN GRANTOR]

By: ______________________________

Name:

Title:

Acknowledged:

BNP PARIBAS,

as Collateral Agent

By: ______________________________

Name:

Title:

By: ______________________________

Name:

Title:

Schedule 1
to Trademark
Security Agreement

[NAME OF LIEN GRANTOR]

U.S. TRADEMARK REGISTRATIONS

TRADEMARK	REG. NO.	REG. DATE

U.S. TRADEMARK APPLICATIONS

TRADEMARK APPLICATION	SERIAL. NO.	APPL. DATE

EXCLUSIVE TRADEMARK LICENSES

Name of Agreement	Parties Licensor/Licensee	Date of Agreement	Exclusively Licensed Trademark/s

Schedules to the Credit and Guaranty Agreement

Schedule 4.1 Jurisdiction of Organization

Full Legal Name	Jurisdiction of Organization
AICA-IE Restaurant, Inc.	California
AID Restaurant, Inc.	Texas
AIH Restaurant, Inc.	Texas
AIIM Restaurant, Inc.	Minnesota
AIIN Restaurant LLC	Indiana
AIT Restaurant, Inc.	Florida
AITN Restaurant, Inc.	Tennessee
American Education Centers Inc.	Delaware
Argosy Education Group, Inc.	Illinois
Argosy University Family Center, Inc.	Minnesota
Argosy University of California LLC	California
Argosy University of Florida, Inc.	Florida (inactive)
Art Institute of Honolulu, Inc.	Hawaii (inactive)
Art Institute of Orlando, Inc.	Florida (inactive)
Brown Mackie College - Albuquerque LLC	New Mexico
Brown Mackie College - Atlanta/College Park, Inc.	Georgia
Brown Mackie College - Birmingham LLC	Alabama
Brown Mackie College - Boise, Inc.	Idaho
Brown Mackie College - Dallas LLC	Texas
Brown Mackie College - Greenville, Inc.	South Carolina
Brown Mackie College - Indianapolis, Inc.	Indiana
Brown Mackie College - Kansas City LLC	Kansas
Brown Mackie College - Miami, Inc.	Florida
Brown Mackie College - Miami North LLC	Florida
Brown Mackie College - Oklahoma City LLC	Oklahoma
Brown Mackie College - Phoenix, Inc.	Arizona
Brown Mackie College - Salina LLC	Kansas
Brown Mackie College - San Antonio LLC	Texas
Brown Mackie College - St. Louis, Inc.	Missouri
Brown Mackie College - Tucson, Inc.	Texas
Brown Mackie College - Tulsa, Inc.	Oklahoma
Brown Mackie Education Corporation	Delaware
Brown Mackie Holding Company	Delaware
EDMC Aviation, Inc.	Pennsylvania (being dissolved)
EDMC Canada Limited	Nova Scotia
EDMC Marketing and Advertising, Inc.	Georgia
Education Finance I LLC	Delaware
Education Finance II LLC	Delaware
Education Management Corporation	Pennsylvania
Education Management Finance Corp.	Delaware
Education Management Holdings LLC	Delaware
Education Management LLC	Delaware
Higher Education Services, Inc.	Georgia

MCM University Plaza, Inc.	Illinois
Miami International University of Art & Design, Inc.	Florida
Michiana College Education Corporation	Delaware
New York Institute of Art, Inc.	New York (inactive)
South Education Corporation	Kansas
South Education - Texas LLC	Texas
South University of Alabama, Inc.	Alabama
South University of Carolina, Inc.	South Carolina
South University of Florida, Inc.	Florida
South University of Michigan, LLC	Michigan
South University of Missouri, Inc.	Missouri
South University of North Carolina, Inc.	North Carolina (inactive)
South University of Tennessee, Inc.	Tennessee (inactive)
South University of Virginia, Inc.	Virginia
South University Research Corporation	Georgia
South University, LLC	Georgia
Southern Ohio College, LLC	Delaware
Stautzenberger College Education Corporation	Delaware
SUNM LLC	Michigan
TAIC-San Diego, Inc. d/b/a The Art Institute of California-San Diego	California
TAIC-San Francisco, Inc. d/b/a The Art Institute of California-San Francisco	California
The Art Institute of Atlanta, LLC	Georgia
The Art Institute of Austin, Inc.	Texas
The Art Institute of California - Hollywood, Inc.	California
The Art Institute of California- Inland Empire, Inc.	California
The Art Institute of California-Los Angeles, Inc.	California
The Art Institute of California-Orange County, Inc.	California
The Art Institute of California-Sacramento, Inc.	California
The Art Institute of California-Sunnyvale, Inc.	California
The Art Institute of Charleston, Inc.	South Carolina
The Art Institute of Charlotte, Inc.	North Carolina
The Art Institute of Colorado, Inc.	Colorado
The Art Institute of Dallas, Inc.	Texas
The Art Institute of Fort Lauderdale, Inc.	Florida
The Art Institute of Fort Worth, Inc.	Texas
The Art Institute of Houston, Inc.	Texas
The Art Institute of Indianapolis LLC	Indiana
The Art Institute of Jacksonville, Inc.	Florida
The Art Institute of Las Vegas, Inc.	Nevada
The Art Institute of Michigan, Inc.	Michigan
The Art Institute of New Jersey LLC	New Jersey
The Art Institute of New York City, Inc.	New York
The Art Institute of Ohio- Cincinnati, Inc.	Ohio
The Art Institute of Philadelphia LLC	PA
The Art Institute of Pittsburgh LLC	PA
The Art Institute of Portland, Inc.	Oregon
The Art Institute of Raleigh-Durham, Inc.	North Carolina
The Art Institute of Salt Lake City, Inc.	Utah
The Art Institute of San Antonio, Inc.	Texas
The Art Institute of Seattle, Inc.	Washington

The Art Institute of St. Louis, Inc.	Missouri
The Art Institute of Tampa, Inc.	Florida
The Art Institute of Tennessee - Nashville, Inc.	Tennessee
The Art Institute of Tucson, Inc.	Arizona
The Art Institute of Vancouver, Inc. (British Columbia)	British Columbia
The Art Institute of Virginia Beach LLC	Virginia
The Art Institute of Washington, Inc.	District of Columbia
The Art Institute of Washington-Northern Virginia LLC	Virginia
The Art Institute of Wisconsin LLC	Wisconsin
The Art Institute of York-Pennsylvania LLC	Pennsylvania
The Art Institutes International - Kansas City, Inc.	Kansas
The Art Institutes International Minnesota, Inc.	Minnesota
The Art Institutes International LLC	Pennsylvania
The Asher School of Business Education Corporation	Delaware
The Connecting Link, Inc.	Georgia
The Illinois Institute of Art at Schaumburg, Inc.	Illinois
The Illinois Institute of Art, Inc.	Illinois
The Illinois Institute of Art - Tinley Park LLC	Illinois
The Institute of Post-Secondary Education, Inc. d/b/a The Art Institute of Phoenix	Arizona
The New England Institute of Art, LLC	Massachusetts
The University of Sarasota, Inc.	Florida
Western State University of Southern California	California

Schedule 4.9 Environmental Matters

None.

Schedule 4.10 Taxes

None.

Schedule 4.11 ERISA Compliance

None.

Schedule 4.12 Subsidiaries and Other Equity Investments

Name	Jurisdiction of Formation	Ownership (Direct Parent)
AICA-IE Restaurant, Inc.	California	100% (The Art Institute of California- Inland Empire, Inc.)
AID Restaurant, Inc.	Texas	100% (The Art Institute of Dallas, Inc.)
AIH Restaurant, Inc.	Texas	100% (The Art Institute of Houston, Inc.)
AIIM Restaurant, Inc.	Minnesota	100% (Education Management LLC)
AIIN Restaurant LLC	Indiana	100% (The Art Institute of Indianapolis LLC)
AIT Restaurant, Inc.	Florida	100% (The Art Institute of Tampa, Inc.)
AITN Restaurant, Inc.	Tennessee	100% (The Art Institute of Tennessee - Nashville, Inc.)
American Education Centers Inc.	Delaware	100% (Brown Mackie Holding Company)
Argosy Education Group, Inc.	Illinois	100% (Education Management LLC)
Argosy University Family Center, Inc.	Minnesota	100% (Argosy Education Group, Inc.)
Argosy University of California LLC	California	100% (Education Management LLC)
Argosy University of Florida, Inc.	Florida (inactive)	100% (Argosy Education Group, Inc.)
Art Institute of Honolulu, Inc.	Hawaii (inactive)	Shares not issued
Art Institute of Orlando, Inc.	Florida (inactive)	Shares not issued
Brown Mackie College - Albuquerque LLC	New Mexico	100% (Brown Mackie College-Tucson, Inc.)
Brown Mackie College - Atlanta/College Park, Inc.	Georgia	100% (American Education Centers Inc.)
Brown Mackie College - Birmingham LLC	Alabama	100% (American Education Centers Inc.)
Brown Mackie College - Boise, Inc.	Idaho	100% (Michiana College Education Corporation)
Brown Mackie College - Dallas LLC	Texas	100% (American Education Centers Inc.)
Brown Mackie College - Greenville, Inc.	South Carolina	100% (Brown Mackie College-Tucson, Inc.)
Brown Mackie College - Indianapolis, Inc.	Indiana	100% (Stautzenberger College Education Corporation)
Brown Mackie College - Kansas City LLC	Kansas	100% (Brown Mackie College- Salina LLC)
Brown Mackie College - Miami, Inc.	Florida	100% (American Education Centers Inc.)
Brown Mackie College - Miami North LLC	Florida	100% (American Education Centers Inc.)
Brown Mackie College - Oklahoma City LLC	Oklahoma	100% (Brown Mackie Education Corporation)
Brown Mackie College - Phoenix, Inc.	Arizona	100% (Brown Mackie College-Tucson, Inc.)
Brown Mackie College - Salina LLC	Kansas	100% (Brown Mackie Education Corporation)
Brown Mackie College - San Antonio LLC	Texas	100% (American Education Centers Inc.)
Brown Mackie College - St. Louis, Inc.	Missouri	100% (Brown Mackie College-Tucson, Inc.)
Brown Mackie College - Tucson, Inc.	Texas	100% (Southern Ohio College, LLC)
Brown Mackie College - Tulsa, Inc.	Oklahoma	100% (Michiana College Education Corporation)
Brown Mackie Education Corporation	Delaware	100% (Brown Mackie Holding Company)
Brown Mackie Holding Company	Delaware	100% (Education Management LLC)
EDMC Aviation, Inc.	Pennsylvania (being dissolved)	100% (Education Management LLC)
EDMC Canada Limited	Nova Scotia	100% (The Art Institutes International LLC)
EDMC Marketing and Advertising, Inc.	Georgia	100% (Education Management LLC)
Education Finance I LLC	Delaware	100% (Education Management LLC)
Education Finance II LLC	Delaware	100% (Education Management Corporation)

Education Management Finance Corp.	Delaware	100% (Education Management LLC)
Education Management Holdings LLC	Delaware	100% (Education Management Corporation)
Education Management LLC	Delaware	100% (Education Management Holdings LLC)
Higher Education Services, Inc.	Georgia	100% (Education Management LLC)
MCM University Plaza, Inc.	Illinois	100% (The University of Sarasota, Inc.)
Miami International University of Art & Design, Inc.	Florida	100% (The Art Institutes International LLC)
Michiana College Education Corporation	Delaware	100% (Brown Mackie Holding Company)
New York Institute of Art, Inc.	New York (inactive)	Shares not issued
South Education Corporation	Kansas	100% (South University, LLC)
South Education - Texas LLC	Texas	100% (South University, LLC)
South University of Alabama, Inc.	Alabama	100% (South University, LLC)
South University of Carolina, Inc.	South Carolina	100% (South University, LLC)
South University of Florida, Inc.	Florida	100% (South University, LLC)
South University of Michigan, LLC	Michigan	100% (South University, LLC)
South University of Missouri, Inc.	Missouri	100% (South University, LLC)
South University of North Carolina, Inc.	North Carolina (inactive)	100% (South University, LLC)
South University of Tennessee, Inc.	Tennessee (inactive)	100% (South University, LLC)
South University of Virginia, Inc.	Virginia	100% (South University, LLC)
South University Research Corporation	Georgia	100% (South University, LLC)
South University, LLC	Georgia	100% (Education Management LLC)
Southern Ohio College, LLC	Delaware	45% (Brown Mackie Holding Company) 22% (American Education Centers Inc.) 11% by each of Brown Mackie Education Corporation, Stautzenberger College Education Corporation and Michiana College Education Corporation
Stautzenberger College Education Corporation	Delaware	100% (American Education Centers Inc.)
SUNM LLC	Michigan	100% (South University, LLC)
TAIC-San Diego, Inc. d/b/a The Art Institute of California-San Diego	California	100% (The Art Institutes International LLC)
TAIC-San Francisco, Inc. d/b/a The Art Institute of California-San Francisco	California	100% (The Art Institutes International LLC)
The Art Institute of Atlanta, LLC	Georgia	100% (The Art Institutes International LLC)
The Art Institute of Austin, Inc.	Texas	100% (The Art Institutes International LLC)
The Art Institute of California - Hollywood, Inc.	California	100% (The Art Institutes International LLC)
The Art Institute of California- Inland Empire, Inc.	California	100% (TAIC-San Diego, Inc. d/b/a The Art Institute of California-San Diego)
The Art Institute of California-Los Angeles, Inc.	California	100% (TAIC-San Francisco, Inc. d/b/a The Art Institute of California-San Francisco)
The Art Institute of California-Orange County, Inc.	California	100% (TAIC-San Francisco, Inc. d/b/a The Art Institute of California-San Francisco)
The Art Institute of California-Sacramento, Inc.	California	100% (TAIC-San Francisco, Inc. d/b/a The Art Institute of California-San Francisco)
The Art Institute of California-Sunnyvale, Inc.	California	100% (The Art Institutes International LLC)
The Art Institute of Charleston, Inc.	South Carolina	100% (The Art Institutes International LLC)
The Art Institute of Charlotte, Inc.	North Carolina	100% (The Art Institutes International LLC)

The Art Institute of Colorado, Inc.	Colorado	100% (The Art Institutes International LLC)
The Art Institute of Dallas, Inc.	Texas	100% (South University, LLC)
The Art Institute of Fort Lauderdale, Inc.	Florida	100% (The Art Institutes International LLC)
The Art Institute of Fort Worth, Inc.	Texas	100% (The Art Institute of Dallas, Inc.)
The Art Institute of Houston, Inc.	Texas	100% (The Art Institutes International LLC)
The Art Institute of Indianapolis LLC	Indiana	100% (The Art Institutes International LLC)
The Art Institute of Jacksonville, Inc.	Florida	100% (The Art Institutes International LLC)
The Art Institute of Las Vegas, Inc.	Nevada	100% (The Art Institutes International LLC)
The Art Institute of Michigan, Inc.	Michigan	100% (The Illinois Institute of Art, Inc.)
The Art Institute of New Jersey LLC	New Jersey	100% (The Art Institute of Pittsburgh LLC)
The Art Institute of New York City, Inc.	New York	100% (The Art Institutes International LLC)
The Art Institute of Ohio- Cincinnati, Inc.	Ohio	100% (The Illinois Institute of Art, Inc.)
The Art Institute of Philadelphia LLC	PA	100% (The Art Institutes International LLC)
The Art Institute of Pittsburgh LLC	PA	100% (The Art Institutes International LLC)
The Art Institute of Portland, Inc.	Oregon	100% (The Art Institutes International LLC)
The Art Institute of Raleigh-Durham, Inc.	North Carolina	100% (The Art Institute of Charlotte, Inc.)
The Art Institute of Salt Lake City, Inc.	Utah	100% (The Art Institutes International LLC)
The Art Institute of San Antonio, Inc.	Texas	100% (The Art Institutes International LLC)
The Art Institute of Seattle, Inc.	Washington	100% (The Art Institutes International LLC)
The Art Institute of St. Louis, Inc.	Missouri	100% (The Art Institute of Colorado, Inc.)
The Art Institute of Tampa, Inc.	Florida	100% (The Art Institutes International LLC)
The Art Institute of Tennessee - Nashville, Inc.	Tennessee	100% (The Art Institutes International LLC)
The Art Institute of Tucson, Inc.	Arizona	100% (The Art Institutes International LLC)
The Art Institute of Vancouver, Inc. (British Columbia)	British Columbia	100% (EDMC Canada Limited)
The Art Institute of Virginia Beach LLC	Virginia	100% (The Art Institute of Atlanta, LLC)
The Art Institute of Washington, Inc.	District of Columbia	100% (The Art Institutes International LLC)
The Art Institute of Washington-Northern Virginia LLC	Virginia	100% (The Art Institutes International LLC)
The Art Institute of Wisconsin LLC	Wisconsin	100% (The Institute of Post-Secondary Education, Inc. d/b/a The Art Institute of Phoenix)
The Art Institute of York-Pennsylvania LLC	Pennsylvania	100% (The Art Institutes International LLC)
The Art Institutes International -Kansas City, Inc.	Kansas	100% (The Art Institutes International LLC)
The Art Institutes International Minnesota, Inc.	Minnesota	100% (The Art Institutes International LLC)
The Art Institutes International LLC	Pennsylvania	100% (Education Management LLC)
The Asher School of Business Education Corporation	Delaware	100% (The Art Institute of Charlotte, Inc.)
The Connecting Link, Inc.	Georgia	100% (Argosy Education Group, Inc.)
The Illinois Institute of Art at Schaumburg, Inc.	Illinois	100% (The Illinois Institute of Art, Inc.)
The Illinois Institute of Art, Inc.	Illinois	100% (The Art Institutes International LLC)
The Illinois Institute of Art - Tinley Park LLC	Illinois	100% (The Illinois Institute of Art, Inc.)
The Institute of Post-Secondary Education, Inc. d/b/a The Art Institute of Phoenix	Arizona	100% (The Art Institute of Colorado, Inc.)

The New England Institute of Art, LLC	Massachusetts	100% (The Art Institutes International LLC)
The University of Sarasota, Inc.	Florida	100% (Argosy Education Group, Inc.)
Western State University of Southern California	California	100% (Argosy Education Group, Inc.)

Exhibit 12.1

Education Management Corporation

Computation of Ratio of Earnings (Losses) to Fixed Charges (Unaudited)

(Dollars in millions)

	For the Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Computation of fixed charges:					
Interest expense	$ 115.8	$ 118.2	$ 109.3	$ 116.6	$ 114.6
Amortization of debt issuance costs	8.1	6.5	1.1	8.5	14.2
Portion of rental expense representative of interest	35.8	39.4	39.3	41.2	70.8
Total fixed charges	$ 159.7	$ 164.1	$ 149.7	$ 166.3	$ 199.6
Computation of earnings:					
Income (loss) before income taxes (a)	$ 250.1	$ 369.2	$ (1,445.0)	$ (232.4)	$ (617.3)
Fixed charges per above	159.7	164.1	149.7	166.3	199.6
Total earnings (losses)	$ 409.8	$ 533.3	$ (1,295.3)	$ (66.1)	$ (417.7)
Ratio of earnings (losses) to fixed charges (b)	**2.6**	**3.2**	**(c)**	**(d)**	**(e)**

(a) The goodwill impairment charges in fiscal 2012 and fiscal 2013 have been revised to correct immaterial errors, which has resulted in the loss before income taxes being revised as compared to the originally reported amounts.

(b) For the purpose of computing the ratio of earnings to fixed charges, "earnings" consist of consolidated pretax income (loss) from continuing operations before adjustment for non-controlling interests in consolidated subsidiaries and income (loss) of equity investees, plus (1) amortization of capitalized interest, (2) distributed income of equity investees and (3) fixed charges described below, excluding interest capitalized. "Fixed charges" consist of (1) interest expensed, (2) capitalized interest, (3) amortization of debt issuance costs and (4) the portion of rent expense estimated to represent interest. Since there was no preferred stock outstanding during the years covered by the table, the ratio of earnings to combined fixed charges and preferred stock dividends has been omitted.

(c) Earnings were insufficient to cover fixed charges by $1,445.0 million for the fiscal year ended June 30, 2012.

(d) Earnings were insufficient to cover fixed charges by $232.4 million for the year ended June 30, 2013.

(e) Earnings were insufficient to cover fixed charges by $617.3 million for the year ended June 30, 2014.

Exhibit 21.1

Subsidiaries

Entity Name	Jurisdiction of Organization	Ownership
Education Management Holdings LLC	DE	100% Company
Education Management LLC	DE	100% Education Management Holdings LLC
Education Finance II LLC	DE	100% Education Management LLC
Education Management Finance Corp.	DE	100% Education Management LLC
The Art Institutes International LLC	PA	100% Education Management LLC
The Art Institute of Atlanta, LLC	GA	100% The Art Institutes International LLC
The Art Institute of Virginia Beach LLC	VA	100% The Art Institute of Atlanta, LLC
The Art Institute of Austin, Inc.	TX	100% The Art Institutes International LLC
The Art Institute of Charleston, Inc.	SC	100% The Art Institutes International LLC
EITA Holdings, Inc.	DE	100% The Art Institutes International LLC
The Art Institute of Colorado, Inc.	CO	100% The Art Institutes International LLC
The Art Institute of St. Louis, Inc.	MO	100% The Art Institute of Colorado
The Institute of Post-Secondary Education, Inc.	AZ	100% The Art Institute of Colorado
The Art Institute of Indianapolis, LLC	IN	100% The Institute of Post-Secondary Education, Inc.
AIIN Restaurant LLC	IN	100% The Art Institute of Indianapolis, LLC
The Art Institutes International - Kansas City, Inc.	KS	100% The Institute of Post-Secondary Education, Inc.
The Art Institute of Las Vegas, Inc.	NV	100% The Institute of Post-Secondary Education, Inc.
The Art Institute of Salt Lake City, Inc.	UT	100% The Institute of Post-Secondary Education, Inc.
The Art Institute of Tucson, Inc.	AZ	100% The Institute of Post-Secondary Education, Inc.
The Art Institute of Wisconsin LLC	WI	100% The Institute of Post-Secondary Education, Inc.
EDMC Management Holdings Limited	BC	100% The Institute of Post-Secondary Education, Inc.
The Art Institute of Vancouver, Inc.	BC	100% EDMC Management Holdings Limited
The Asher School of Business Education Corporation	DE	100% The Institute of Post-Secondary Education, Inc.
American Education Centers, Inc.	DE	100% The Institute of Post-Secondary Education, Inc.
Brown Mackie College-Birmingham LLC	AL	100% American Education Centers, Inc.
Brown Mackie College - Dallas/ Ft. Worth LLC	TX	100% American Education Centers, Inc.
Brown Mackie College - Miami, Inc.	FL	100% American Education Centers, Inc.
Brown Mackie College - Miami North LLC	FL	100% American Education Centers, Inc.
Brown Mackie College - San Antonio LLC	TX	100% American Education Centers, Inc.
Stautzenberger College Education Corporation	DE	100% American Education Centers, Inc.
Brown Mackie College-Indianapolis, Inc.	IN	100% Stautzenberger College Education Corporation
Michiana College Education Corporation	DE	100% The Institute of Post-Secondary Education, Inc.
Brown Mackie College - Boise, Inc.	ID	100% Michiana College Education Corporation
Brown Mackie College - Tulsa, Inc.	OK	100% Michiana College Education Corporation
The Art Institute of Fort Lauderdale, Inc.	FL	100% The Art Institutes International LLC
The Art Institute of Houston, Inc.	TX	100% The Art Institutes International LLC
AIH Restaurant, Inc.	TX	100% The Art Institute of Houston, Inc.
The Art Institute of Jacksonville, Inc.	FL	100% The Art Institutes International LLC
The Art Institutes International Minnesota, Inc.	MN	100% The Art Institutes International LLC
The Art Institute of New York City, Inc.	NY	100% The Art Institutes International LLC
The Art Institute of Philadelphia LLC	PA	100% The Art Institutes International LLC
The Art Institute of Pittsburgh LLC	PA	100% The Art Institutes International LLC
The Art Institute of Connecticut LLC	CT	100% The Art Institute of Pittsburgh LLC

Subsidiaries

Entity Name	Jurisdiction of Organization	Ownership
The Art Institute of New Jersey LLC	NJ	100% The Art Institute of Pittsburgh LLC
The Art Institute of Portland, Inc.	OR	100% The Art Institutes International LLC
The Art Institute of San Antonio, Inc.	TX	100% The Art Institutes International LLC
The Art Institute of Seattle, Inc.	WA	100% The Art Institutes International LLC
The Art Institute of Tampa, Inc.	FL	100% The Art Institutes International LLC
AIT Restaurant, Inc.	FL	100% The Art Institute of Tampa, Inc.
The Art Institute of Tennessee - Nashville, Inc.	TN	100% The Art Institutes International LLC
AITN Restaurant, Inc.	TN	100% The Art Institute of Tennessee - Nashville, Inc.
The Art Institute of Washington, Inc.	DC	100% The Art Institutes International LLC
The Art Institute of Washington - Dulles LLC	VA	100% The Art Institutes International LLC
The Art Institute of York-Pennsylvania LLC	PA	100% The Art Institutes International LLC
The Illinois Institute of Art, Inc.	IL	100% The Art Institutes International LLC
The Illinois Institute of Art - Tinley Park LLC	IL	100% The Illinois Institute of Art, Inc.
The Art Institute of Michigan, Inc.	MI	100% The Illinois Institute of Art, Inc.
The Illinois Institute of Art at Schaumburg, Inc.	IL	100% The Illinois Institute of Art, Inc.
The Art Institute of Ohio - Cincinnati, Inc.	OH	100% The Illinois Institute of Art, Inc.
Miami International University of Art & Design, Inc.	FL	100% The Art Institutes International LLC
The New England Institute of Art, LLC	MA	100% The Art Institutes International LLC
EDMC Marketing and Advertising, Inc.	GA	100% Education Management LLC
AIIM Restaurant, Inc.	MN	100% Education Management LLC
Argosy University of California LLC	CA	100% Education Management LLC
TAIC- San Diego, Inc. (The Art Institute of California - San Diego)	CA	100% Argosy University of California LLC
The Art Institute of California - Inland Empire, Inc.	CA	100% TAIC-San Diego, Inc.
AICA-IE Restaurant, Inc.	CA	100% The Art Institute of California- Inland Empire, Inc.
TAIC- San Francisco, Inc. (The Art Institute of California - San Francisco)	CA	100% Argosy University of California LLC
The Art Institute of California - Los Angeles, Inc.	CA	100% TAIC- San Francisco, Inc.
The Art Institute of California - Orange County, Inc.	CA	100% TAIC- San Francisco, Inc.
The Art Institute of California - Sacramento, Inc.	CA	100% TAIC- San Francisco, Inc.
The Art Institute of California - Hollywood, Inc.	CA	100% Argosy University of California LLC
The Art Institute of California - Silicon Valley, Inc.	CA	100% Argosy University of California LLC
The Art Institute of Colorado Springs, Inc.	CO	100% Argosy University of California LLC
Argosy Education Group, Inc.	IL	100% Argosy University of California LLC
Western State University of Southern California	CA	100% Argosy Education Group, Inc.
The University of Sarasota, Inc.	FL	100% Argosy Education Group, Inc.
MCM University Plaza, Inc.	IL	100% The University of Sarasota, Inc.
The Connecting Link, Inc.	GA	100% Argosy Education Group, Inc.
Argosy University Family Center, Inc.	MN	100% Argosy Education Group, Inc.
South University, LLC	GA	100% Education Management LLC
South University of Alabama, Inc.	AL	100% South University, LLC
South University of Arizona LLC	AZ	100% South University, LLC
South University of Arkansas LLC	AR	100% South University, LLC

Subsidiaries

Entity Name	Jurisdiction of Organization	Ownership
South University of Carolina, Inc.	SC	100% South University, LLC
The Art Institute of Charlotte, LLC	NC	100% South University, LLC
The Art Institute of Raleigh-Durham, Inc.	NC	100% The Art Institute of Charlotte, LLC
South University of Florida, Inc.	FL	100% South University, LLC
South University of Michigan, LLC	MI	100% South University, LLC
South University of Missouri, Inc.	MO	100% South University, LLC
South University of North Carolina LLC	NC	100% South University, LLC
South University of Ohio LLC	OH	100% South University, LLC
South University of Tennessee, Inc.	TN (inactive)	100% South University, LLC
South University of Virginia, Inc.	VA	100% South University, LLC
South Education Corporation	KS	100% South University, LLC
South Education - Texas LLC	TX	100% South University, LLC
The Art Institute of Dallas, Inc.	TX	100% South University, LLC
AID Restaurant, Inc.	TX	100% The Art Institute of Dallas, Inc.
The Art Institute of Fort Worth, Inc.	TX	100% The Art Institute of Dallas, Inc.
South University Research Corporation	GA	100% South University, LLC
Higher Education Services, Inc.	GA	100% Education Management LLC
Brown Mackie Education Corporation	DE	100% Education Management LLC
Brown Mackie College - Salina LLC	KS	100% Brown Mackie Education Corporation
Brown Mackie College - Kansas City LLC	KS	100% Brown Mackie College-Salina LLC
Brown Mackie College - Oklahoma City LLC	OK	100% Brown Mackie College-Salina LLC
Southern Ohio College, LLC	DE	45% by Education Management LLC, 22% by American Education Centers, Inc., and 11% by each of Brown Mackie Education Corporation, Stautzenberger College Education Corporation and Michiana College Education Corporation
Brown Mackie College - Tucson, Inc.	AZ	100% Southern Ohio College, LLC
Brown Mackie College-Greenville, Inc.	SC	100% Brown Mackie College- Tucson, Inc.
Brown Mackie College-Phoenix, Inc.	AZ	100% Brown Mackie College- Tucson, Inc.
Brown Mackie College-St. Louis, Inc.	MO	100% Brown Mackie College- Tucson, Inc.
Brown Mackie College-Albuquerque LLC	NM	100% Brown Mackie College- Tucson, Inc.
Argosy University of Florida Inc.	FL (inactive)	100% Argosy Education Group, Inc.
Art Institute of Honolulu, Inc.	HI (inactive)	Shares not issued
Art Institute of Orlando, Inc.	FL (inactive)	Shares not issued
New York Institute of Art, Inc.	NY(inactive)	Shares not issued

EXHIBIT 31.1

CERTIFICATIONS

I, Edward H. West, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended June 30, 2014 of Education Management Corporation;
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 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 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: October 16, 2014

By: /S/ EDWARD H. WEST

Edward H. West

President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Mick J. Beekhuizen, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended June 30, 2014 of Education Management Corporation;
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 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 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: October 16, 2014

By: /S/ MICK J. BEEKHUIZEN

Mick J. Beekhuizen

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K of Education Management Corporation (the "Company") for the fiscal year ended June 30, 2014 (the "Report"), I, Edward H. West, President and Chief Executive Officer of the Company, hereby certify in such capacity, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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, as amended; and

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

Date: October 16, 2014

By: /S/ EDWARD H. WEST
Edward H. West
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K of Education Management Corporation (the “Company”) for the fiscal year ended June 30, 2014 (the “Report”), I, Mick J. Beekhuizen, Executive Vice President and Chief Financial Officer of the Company, hereby certify in such capacity, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 16, 2014

By: /S/ MICK J. BEEKHUIZEN
Mick J. Beekhuizen

Executive Vice President and Chief Financial Officer