

<Lohman@ibhe.org<mailto:Lohman@ibhe.org>>

Subject: Re: [Ext] RE: Phone call

Do you mean Thursday, March 7 and Friday March 8? Where will these be held? I will check with our Admissions folks and see if they can do this. Caryn Sent from my iPhone

On Mar 5, 2019, at 8:23 PM, Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>> wrote:

FYI - Chicago is doing the following schedule:

Thursday, March 6th

12:00-2:00pm

5:00-7:00pm

Friday, March 7th

12:00-2:00pm

We will then plan to follow up with another day of 12-2pm and 5-7pm next Tuesday, March 12th.

Thank you.

Kevin Beaver, MBA

Campus President

<image001.jpg>

225 North Michigan Avenue | Suite 1300 | Chicago, Illinois 60601 Office: (312) 777-7735 | kebeaver@argosy.edu<mailto:kebeaver@argosy.edu> | <[From: Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>>](https://urldefense.proofpoint.com/v2/url?u=http-3A__argosy.edu&d=DwMFAG&c=euGZstcaTDIIVimEN8b7jXrwqOf-v5A_Cdp gnVfiiMM&r=YYHpZNuBYhCUqBCqhRMwCQ&m=GJbWkxFQMEzbRixe4rOEKQcsF_M1KBvE7_oUq9smOHw&s=TQlvFQ-IY--xPOOl asYHdSshwdfgLuqdSGoFVpc_mQ&e=> argosy.edu<https://urldefense.proofpoint.com/v2/url?u=http-3A__argosy.edu&d=DwQFAG&c=euGZstcaTDIIVimEN8b7jXrwqOf-v5A_Cdp gnVfiiMM&r=YYHpZNuBYhCUqBCqhRMwCQ&m=GJbWkxFQMEzbRixe4rOEKQcsF_M1KBvE7_oUq9smOHw&s=TQlvFQ-IY--xPOOl asYHdSshwdfgLuqdSGoFVpc_mQ&e=></a>></p></div><div data-bbox=)

Sent: Tuesday, March 05, 2019 8:12 PM

To: Chaden, Caryn <CCHADEN@depaul.edu<mailto:CCHADEN@depaul.edu>>

Cc: Lohman, Gretchen <Lohman@ibhe.org<mailto:Lohman@ibhe.org>>; Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>>

Subject: RE: [Ext] RE: Phone call

Caryn,

We are conducting transfer fairs at all of our locations on Thursday, March 8th and Friday, March 9th 12:00 - 2:00 eastern standard time and 4:00 - 8:00 and would like your schools participation if possible. Please let me know if you plan to participate so I can add the schools information to our list.

Thanks,

Michelle  
513-262-4811

From: Chaden, Caryn <CCHADEN@depaul.edu<mailto:CCHADEN@depaul.edu>>  
Sent: Monday, March 04, 2019 9:48 PM  
To: Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>>  
Cc: Lohman, Gretchen <Lohman@ibhe.org<mailto:Lohman@ibhe.org>>; Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>>  
Subject: Re: [Ext] RE: Phone call

I will be available after 4:30.  
Sent from my iPhone

On Mar 4, 2019, at 8:45 PM, Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>> wrote:  
Caryn,

I will see if Kevin is available to speak with you prior to 11. Unfortunately, my schedule is packed. If not, we can talk tomorrow after 4 as well.

Michelle

From: Chaden, Caryn <CCHADEN@depaul.edu<mailto:CCHADEN@depaul.edu>>  
Sent: Monday, March 04, 2019 9:43 PM  
To: Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>>  
Cc: Lohman, Gretchen <Lohman@ibhe.org<mailto:Lohman@ibhe.org>>; Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>>  
Subject: Re: [Ext] RE: Phone call

May we please talk in the morning, before 11? I have to go to a funeral in the afternoon. Thanks much.  
Caryn Sent from my iPhone

On Mar 4, 2019, at 8:40 PM, Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>> wrote:  
I will send you an invite to discuss for tomorrow.

From: Chaden, Caryn <CCHADEN@depaul.edu<mailto:CCHADEN@depaul.edu>>  
Sent: Monday, March 04, 2019 9:37 PM  
To: Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>>  
Cc: Lohman, Gretchen <Lohman@ibhe.org<mailto:Lohman@ibhe.org>>; Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>>  
Subject: Re: [Ext] RE: Phone call

Michelle,

I have not been in contact with anyone from Argosy.

Caryn  
Sent from my iPhone

On Mar 4, 2019, at 8:34 PM, Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>> wrote:  
Caryn,

Thank you for your willingness to serve as a transfer partner. To ensure we are not duplicating contacting your school, please let me know if you have been in contact with any other representative from Argosy.

Thanks,

Michelle

From: Lohman, Gretchen <Lohman@ibhe.org<mailto:Lohman@ibhe.org>>  
Sent: Monday, March 04, 2019 1:31 PM  
To: Toney, Hope M. <htoney@dcedh.org<mailto:htoney@dcedh.org>>  
Cc: Beaver, Kevin <kebeaver@argosy.edu<mailto:kebeaver@argosy.edu>>; Chaden, Caryn <CCHADEN@depaul.edu<mailto:CCHADEN@depaul.edu>>  
Subject: RE: Phone call

Hi Michele,

I'd like to make you aware of several other institutions who are willing to serve as transfer options for students. I believe I have shared this several times, but I'll do everything individually so you can directly connect to them. It would be great if you could reach out to them today.

Caryn Chaden from DePaul University is copied on this message.

Gretchen

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**Mangold, Donna**

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**From:** Mangold, Donna  
**Sent:** Wednesday, March 6, 2019 12:03 PM  
**To:** Eitel, Robert; Bailey, Nathan; Minor, Robin; Bennett, Ron; Jones, Diane  
**Cc:** Frola, Michael; Brinton, Jed; Finley, Steve  
**Subject:** RE: Argosy update

Forgot to add Diane – sorry!

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**From:** Mangold, Donna  
**Sent:** Wednesday, March 06, 2019 12:00 PM  
**To:** Eitel, Robert; Bailey, Nathan; Minor, Robin; Bennett, Ron  
**Cc:** Frola, Michael; Brinton, Jed; Finley, Steve  
**Subject:** Argosy update

(b)(5)

## Mangold, Donna

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**From:** Mangold, Donna  
**Sent:** Wednesday, March 6, 2019 1:11 PM  
**To:** Eitel, Robert  
**Cc:** Bailey, Nathan; Minor, Robin; Bennett, Ron; Frola, Michael; Brinton, Jed; Finley, Steve; Hill, Elizabeth; Jones, Diane; Oppenheim, Peter  
**Subject:** RE: Argosy update - further update from receiver's counsel

### More from the receiver's counsel:

“The Court has questions, so we are slowing our notifications.”

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**From:** Mangold, Donna  
**Sent:** Wednesday, March 06, 2019 12:05 PM  
**To:** Eitel, Robert  
**Cc:** Bailey, Nathan; Minor, Robin; Bennett, Ron; Frola, Michael; Brinton, Jed; Finley, Steve; Hill, Elizabeth; Jones, Diane; Oppenheim, Peter  
**Subject:** RE: Argosy update - further update from receiver's counsel

### Just got an e-mail:

“Also, we want to make clear that for Las Vegas and for Pittsburgh, if no buyer has bid on Friday, those campuses will also close. It seems that I did not make that clear.”

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**From:** Eitel, Robert  
**Sent:** Wednesday, March 06, 2019 12:04 PM  
**To:** Mangold, Donna  
**Cc:** Bailey, Nathan; Minor, Robin; Bennett, Ron; Frola, Michael; Brinton, Jed; Finley, Steve; Hill, Elizabeth; Jones, Diane; Oppenheim, Peter  
**Subject:** Re: Argosy update

+ Liz and Diane and Peter

Robert S. Eitel  
Senior Counselor to the Secretary  
U.S. Department of Education

On Mar 6, 2019, at 11:59 AM, Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)> wrote:

(b)(5)

(b)(5)

**Mangold, Donna**

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**From:** Mangold, Donna  
**Sent:** Wednesday, March 6, 2019 6:15 PM  
**To:** Jones, Diane; Minor, Robin; Frola, Michael; Bennett, Ron; Sikora, Tara  
**Cc:** Eitel, Robert; Bailey, Nathan; Hill, Elizabeth; Brinton, Jed  
**Subject:** FW: New document: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 112, N.D. Ohio 1:19-cv-00145-DAP)  
**Attachments:** 2019-03-06 Emergency Motion To [dckt 112\_0].pdf

It is now on the public record that there is an emergency motion to either sell or close the schools.

There are a few options for each campus. First, if a buyer acquires the campus and meets state, federal, and accreditor requirements, the campus may continue operations. This would mean that students would continue their studies without interruption. There are interested buyers for a number of the DCEH campuses in receivership and are working as quickly as possible to secure them. Before Friday, the Receiver will be filing motions to approve transactions with interested buyers.

In addition to a sale or acquisition, there may be a “transfer partner” that has an interest in teaching out the campus; the campus may then continue operations. This could mean that students would continue their studies without interruption at the transfer partner’s location. If a buyer does not acquire the campus, the Receiver proposes to close this Friday, March 8 and students will be provided information about transfer partners that are willing to assist them in reaching their educational goals.

The Receiver is partnering with schools and organizations to provide resources to help students make informed choices. Every campus will host an informational fair on Thursday, March 7 and Friday, March 8. Institutions that are qualified transfer or teach out partners will be invited. Email messages to students will provide the times for the informational fairs.

\*\*\*\*

WHEREFORE, the Receiver moves this honorable Court for authority to close campuses, and to do those things that his finances allow to transition the students to new situations.

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**From:** ECFdocuments@pacerpro.com [mailto:ECFdocuments@pacerpro.com]  
**Sent:** Wednesday, March 06, 2019 5:09 PM  
**To:** Mangold, Donna; jonathan.e.jacobson@usdoj.gov; danielle.pham@usdoj.gov; jwe@weadvocate.net; mkw@weadvocate.net  
**Subject:** New document: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 112, N.D. Ohio 1:19-cv-00145-DAP)

## Digital Media Solutions, LLC v. South University of Ohio, LLC et al

**Docket entry number: 112**

Emergency Motion TO SELL, TRANSITION OR CLOSE ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES filed by Receiver Mark E. Dottore. (Whitmer, Mary)  
(Entered: 03/06/2019)

*Date entered: 2019-03-06*

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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC,	)	CASE NO. 1:19-cv-145
	)	
Plaintiff,	)	JUDGE DAN AARON POLSTER
	)	
v.	)	MAGISTRATE JUDGE
	)	THOMAS M. PARKER
SOUTH UNIVERSITY OF OHIO,	)	
LLC, <i>et. al.</i> ,	)	
	)	
Defendants.	)	

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EMERGENCY MOTION TO SELL, TRANSITION OR CLOSE ARGOSY  
UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES

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Mark E. Dottore, Receiver, (“**Receiver**”), the duly appointed and acting receiver for the Receivership Entities<sup>1</sup>, moves the Court for the entry of an order authorizing the Receiver to sell, transition or close Argosy University Campues and Art Institutes Campuses.<sup>2</sup> The Receiver does not have funding to continue to operate the campuses. In support of this motion, the Receiver says as follows:

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<sup>1</sup> The "Receivership Entities" are South University of Ohio LLC, Dream Center Education Holdings LLC, The DC Art Institute of Raleigh-Durham LLC, The DC Art Institute of Charlotte LLC, DC Art Institute of Charleston LLC, DC Art Institute of Washington LLC, The Art Institute of Tennessee - Nashville LLC, AiTN Restaurant LLC, The Art Institute of Colorado LLC, DC Art Institute of Phoenix LLC, The Art Institute of Portland LLC, The Art Institute of Seattle LLC, The Art Institute of Pittsburgh, DC LLC, The Art Institute of Philadelphia, DC, LLC, DC Art Institute of Fort Lauderdale LLC, The Illinois Institute of Art LLC, The Art Institute of Michigan LLC, The Illinois Institute of Art at Schaumberg LLC, DC Art Institute of Phoenix, LLC and its direct subsidiaries the Art Institute of Las Vegas LLC, the Art Institute of Indianapolis, LLC, and AiIN Restaurant LLC; Dream Center Argosy University of California LLC and its direct subsidiaries, and Argosy Education Group LLC; Dream Center Education Management LLC; and, South University of Michigan LLC. See Order Appointing Receiver [Docket no. 8, filed Jan. 18, 2019] (the “**Initial Receiver Order**”) at 3-4; see also Order Clarifying Order Appointing Receiver [Docket no. 14, filed Jan 25, 2019] (the “**Clarifying Order**”) at 1 (removing AU Student Funding, LLC as a “Receivership Entity”).

<sup>2</sup> Capitalized terms used but not defined in this motion shall have the meanings given to them in the Initial Receiver Order as modified by the Clarifying Order (collectively, the “**Receiver Order**”).

### Introduction<sup>3</sup>

This Court appointed the Receiver on January 18, 2019, on an emergency basis, pursuant to its Order Appointing Receiver [Dkt. No. 8] (the “**Initial Receiver Order**”). On January 25, 2019, after discussions with the secured lenders of the Receivership Entities, the Receiver filed his *Motion of Mark E. Dottore, Receiver for Entry of Order Clarifying Order Appointing Receiver* [Docket No. 12], pursuant to which the Court entered the Clarifying Order, *nunc pro tunc* to the entry of the Initial Receiver Order. [Dkt. No. 14].

On February 25, 2019, the Receiver filed his *Motion of Mark E. Dottore Receiver for Entry of Amended Order Appointing Receiver*, seeking the entry of an Amended Order Appointing Receiver (the “**Amended Receiver Order**”), incorporating changes requested by persons with significant interests in the Receivership Entities and the operations of the receivership proceedings, including government entities and lenders. The various iterations of the orders appointing the Receiver shall be referred to herein as the “**Receiver Order**” because the differences between the Initial Receiver Order, the Clarifying Order and the Amended Receiver Order (if entered by the Court) are insignificant for the purposes of this Motion.

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<sup>3</sup> This “Introduction” is substantially the same as the Introduction to the Memorandum in Support of Receiver’s Motion for a Temporary Restraining Order and Preliminary Injunction filed by the Receiver in Northern District of Ohio Case No. 1:19-cv-380-DAP, entitled *Dottore, Receiver v. Studio Enterprise Manager, LLC, et al.* (the “**Receiver Action Against Studio**”), [Docket no. 2, filed Feb. 21, 2019].

### Jurisdiction and Venue

The relief requested in this motion is governed by FED. R. CIV. P. 66, Rule 66.1(c) and (d) of the Local Rules for the United States District Court for the Northern District of Ohio (the “**Local Rules**”), and the Receiver Order.

### Facts

The background of the Argosy and AI campuses is more fully set forth in the First Receiver Report [Dkt. No. 91] filed on March 4, 2019 (the “**First Report**”), which is incorporated herein as if fully rewritten. As was explained in the First Report, since the inception of the receivership, the Receiver has been on an extremely restricted cash management system. On February 27, 2019, the United States Department of Education (the “**DOE**”) published a letter denying Argosy any further Title IV funding (the “**Denial Letter**”). The DOE’s decision to cut off all Title IV funding to Argosy left the Receiver with over 10,000 students in the middle of their studies and virtually no money. Without these critical funds, Argosy is unable to continue educating students and the university is failing.

The Receiver also has three campuses known as Art Institute (“**AI**”) campuses: AI Las Vegas, AI Pittsburgh (campus and online), and AI Seattle (together, the “**AI Campuses**”). These campuses are also seeking buyers or a completion of a teach out or transfer.

Since the receipt of the Denial Letter, the Receiver has worked around the clock to locate parties interested in acquiring Argosy students or locations. He has

also been working to sell or transition the AI Campuses. The Receiver's goal is to transition students to new situations in the most efficient way possible.

There are a few options for each campus. First, if a buyer acquires the campus and meets state, federal, and accreditor requirements, the campus may continue operations. This would mean that students would continue their studies without interruption. There are interested buyers for a number of the DCEH campuses in receivership and are working as quickly as possible to secure them. Before Friday, the Receiver will be filing motions to approve transactions with interested buyers.

In addition to a sale or acquisition, there may be a "transfer partner" that has an interest in teaching out the campus; the campus may then continue operations. This could mean that students would continue their studies without interruption at the transfer partner's location. If a buyer does not acquire the campus, the Receiver proposes to close this Friday, March 8 and students will be provided information about transfer partners that are willing to assist them in reaching their educational goals.

The Receiver is partnering with schools and organizations to provide resources to help students make informed choices. Every campus will host an informational fair on Thursday, March 7 and Friday, March 8. Institutions that are qualified transfer or teach out partners will be invited. Email messages to students will provide the times for the informational fairs.

Students who need a copy of their official academic transcripts may request them from their registrar. All holds have been removed. Notifications have been made with the Department of Education, accreditors for the campus locations, the state grant agencies and state authorizing agencies.

The Receiver has authority under the Receiver Order to sell, transition or close each campus. The Receiver's authority to operating, wind-down and liquidate is contained in Paragraphs 2.c and 2.d of the Receiver Order:

- c. The Receiver shall have the authority to operate and manage the Receivership Entities and the Property as he deems prudent in his sole discretion throughout the litigation, subject to further order of this Court. The Receiver shall preserve and care for any and all of the Property and utilize any and all of the Property to preserve and maximize the value of the Property.
- d. The Receiver shall secure the business premises, business equipment, data and documents; take control of all means of communication with students, investors, secured and unsecured lenders, landlords, vendors, agents and others doing business with the Receivership Entities (the "**Business**"). The Receiver shall have the authority to communicate and negotiate with and enter into agreements with the Department of Education regarding the "teach-out" or any other issue. The Receiver shall have the authority to take all reasonable and necessary steps to wind-down and liquidate the business operations.

The Receivers authority to sell, transfer, use or assign the property of the Receivership Entities is located at Paragraph 2.n of the Receiver Order:

- n. The Receiver is authorized to negotiate and effect an orderly sale, transfer, use or assignment of all or a portion of any of the Property in or outside of the ordinary course of business of the Receivership Entities and, from the proceeds thereof, to pay the secured and unsecured indebtedness of the Property, including the Real Property. Payments to creditors by the Receiver shall include trade indebtedness which arises during the course of the Receiver's operation of

the Property, which shall be paid first from the sale proceeds, together with the fees and expenses of the Receiver and his attorneys, accountants and other professionals. The Receiver is authorized to conduct such a sale of the Property in any manner which he, in his good faith and reasonable discretion, believes will maximize the proceeds received from the sale.

The Receiver is doing everything he can do in the short time available to him to help the students navigate this course. This is devastating news for all of the students and faculty, but the Receiver will continue to work to militate against further disruptions. The Court may expect motions to approve sales, transfers, and teach outs.

WHEREFORE, the Receiver moves this honorable Court for authority to close campuses, and to do those things that his finances allow to transition the students to new situations.

Dated:

Respectfully submitted,

/s/ Mary K. Whitmer

Mary K. Whitmer (0018213)  
James W. Ehrman (0011006)  
Robert M. Stefancin (0047184)  
WHITMER & EHRMAN LLC  
2344 Canal Road, Suite 401  
Cleveland, Ohio 44113-2535  
Telephone: (216) 771-5056  
Telecopier: (216) 771-2450  
Email: mkw@WEadvocate.net  
jwe@WEadvocate.net  
rms@WEadvocate.net

*Counsel for Mark E. Dottore, Receiver*

**CERTIFICATE OF SERVICE**

In accordance with Section 1.4 of the Electronic Filing and Procedures Manual of the Northern District of Ohio and Federal Rule of Civil Procedure 5(b)(2)(E), a copy of the foregoing has been served through the Court's filing system on all counsel of record on March 6, 2019.

*/s/ Mary K. Whitmer* \_\_\_\_\_  
Mary K. Whitmer (0018213)

**Mangold, Donna**

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**From:** Mangold, Donna  
**Sent:** Thursday, March 7, 2019 11:46 AM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Eitel, Robert; Brinton, Jed  
**Subject:** FW: Statement of Interest Sections

(b)(5)

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**From:** Jacobson, Jonathan E. (CIV) [mailto:Jonathan.E.Jacobson@usdoj.gov]  
**Sent:** Thursday, March 07, 2019 11:37 AM  
**To:** Mangold, Donna; Finley, Steve  
**Cc:** Randolph, Lloyd (CIV); Pham, Danielle (CIV)  
**Subject:** Statement of Interest Sections

Donna,

(b)(5)

Thank you and feel free to call me with any questions.

Jonathan



## Minor, Robin

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**From:** Minor, Robin  
**Sent:** Wednesday, March 13, 2019 6:24 PM  
**To:** Brown, Mark; O'Brien, Marianna; Jones, Diane; Mangold, Donna; Finley, Steve; Bennett, Ron; Frola, Michael  
**Subject:** FW: Closure Portal collateral

Argosy School closure pages are live on the website.

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**From:** May, Todd  
**Sent:** Wednesday, March 13, 2019 6:19 PM  
**To:** Minor, Robin; Valentine, Ingrid  
**Cc:** May, Todd  
**Subject:** Closure Portal collateral  
**Importance:** High

The Argosy and Art Institute pages are live on [StudentAid.gov/closures](https://studentaid.gov/closures). Here are the individual pages and updates:

<https://studentaid.ed.gov/sa/about/announcements/dream-center> - new section on Argosy announcement page indicating closure and directing students to the closure portal.

<https://studentaid.ed.gov/sa/sites/default/files/dream-center.pdf> - Ai and Argosy fact sheet

<https://studentaid.ed.gov/sa/sites/default/files/dream-center-closures.xlsx> - school spreadsheet with closure dates and csld information

<https://studentaid.ed.gov/sa/sites/default/files/argosy-information-fairs.xlsx> - 3-13-19 update on transfer fairs and state web portals designed to help Ai and Argosy students.

**Jones, Diane**

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**From:** Jones, Diane  
**Sent:** Friday, March 15, 2019 5:10 PM  
**To:** Minor, Robin; Mangold, Donna; Frola, Michael  
**Subject:** FW: Closed School Notice, Art Institute of Pittsburgh (The) OPEID: 00747000  
**Attachments:** CS\_Notice.00747000.pdf  
**Importance:** High

Do you know the answer to Heather's question? Is this an ED decision or an accreditor decision?

Diane

---

**From:** Heather Perfetti <HPerfetti@msche.org>  
**Sent:** Friday, March 15, 2019 4:17 PM  
**To:** Jones, Diane <Diane.Jones@ed.gov>  
**Subject:** FW: Closed School Notice, Art Institute of Pittsburgh (The) OPEID: 00747000  
**Importance:** High

Hi Diane. I hope you are doing well. We had discussed our giving flexibility to The Art Institute of Pittsburgh to issue grades and credentials. The interim president and registrar, the only remaining employees, were able to do so by Tuesday, March 12. The attached closed school notice indicates the *school closed effective date* for The Art Institute of Pittsburgh as 3/08/19. Does this impact grades or credentials that were issued after the closure date? I just wanted to check on this.

I want to note that we did not receive the information we requested from the receiver about the status of The Art Institute of Pittsburgh, which was due Monday, March 12, 2019 by 5 pm. We have not received any communication since the abrupt closure.

Only other update worth mentioning at this point: The Middle States Commission on Higher Education filed a motion to intervene, which was granted by the Court. I'm not sure that will gain us very much at this point but we can go to the Court if necessary.

Heather

**Heather F. Perfetti, J.D., Ed.D.**  
Senior Vice President for Legal Affairs and Chief of Staff  
Middle States Commission on Higher Education  
3624 Market Street  
Philadelphia, PA 19104  
267.284.5046 – Office  
[hperfetti@msche.org](mailto:hperfetti@msche.org)  
[www.msche.org](http://www.msche.org)



# CLOSED SCHOOL UNIT CLOSED SCHOOL NOTICE

**Lost Eligibility:** 03/08/2019

**Region:** III

**School Closed Effective:** 03/08/2019

**Accrediting Agency:** MSACHE

**Accreditation End Date:**

**School:** Art Institute of Pittsburgh (The)  
420 Boulevard of the Allies  
Pittsburgh, PA 15219-1301

**OPE ID:** 00747000

**FFEL ID:** 007470

**CMO Grantee DUNS:** 101583243

**Campus:** Main Campus

**Campus Based ID:** 003539

**Institution Type:** Proprietary

**Campus Based Grantee DUNS:** N/A

**Direct Loan ID:** G07470

**PELL ID:** 007470

**Direct Loan Grantee DUNS:** N/A

**PELL Grantee DUNS:** N/A

## RECORD RETENTION

**Record Location:** School

Dream Center Education Holdings, LLC  
615 McMichael Road  
Pittsburgh, Pennsylvania 15205

## DEPARTMENT FUNDING INFORMATION

**Perkins:** Yes

## STATE LICENSING AGENCY INFORMATION

**School Bond Amount:** \$0

**Tuition Recovery Fund:** No

**Closure Verified By:** Organization: U.S. Department of Education

Contact: Andrew Lawrence

Phone: (202) 377-4369

**Comments:** The institution abruptly closed amid financial aid violations. The school ceased offering classes on Friday, March 8, 2019. If students have questions regarding transcripts, ledger cards or diplomas, they may contact DCEH Central Services at 888-863-0324. Additional closure information can be found at <https://studentaid.ed.gov/sa/about/announcements/dream-center>.

**Student Arrangements:** Transfer fairs and webinars will be conducted for all impacted Dream Center campuses.

**Contact:** Andrew Lawrence (202) 377-4369

**Jones, Diane**

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**From:** Jones, Diane  
**Sent:** Monday, March 18, 2019 11:14 AM  
**To:** Mangold, Donna; Adair, Lucas (John)  
**Cc:** O'Brien, Marianna; Huston, John; Minor, Robin; Frola, Michael; Sikora, Tara; Puffer, Rhonda  
**Subject:** RE: Dream Center BP  
**Attachments:** Dream Center BP 3.18.19final.docx

Updated – just saw Donna’s note about (b)(5)

---

**From:** Jones, Diane  
**Sent:** Monday, March 18, 2019 11:07 AM  
**To:** Mangold, Donna <Donna.Mangold@ed.gov>; Adair, Lucas (John) <John.Adair@ed.gov>  
**Cc:** O'Brien, Marianna <Marianna.O'Brien@ed.gov>; Huston, John <John.Huston@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>  
**Subject:** RE: Dream Center BP

Thanks, everyone, for all of your help with this! Attached is the final document. There is still one missing

(b)(5)

---

**From:** Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>  
**Sent:** Sunday, March 17, 2019 1:40 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Adair, Lucas (John) <[John.Adair@ed.gov](mailto:John.Adair@ed.gov)>  
**Cc:** O'Brien, Marianna <[Marianna.O'Brien@ed.gov](mailto:Marianna.O'Brien@ed.gov)>; Huston, John <[John.Huston@ed.gov](mailto:John.Huston@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; Sikora, Tara <[Tara.Sikora@ed.gov](mailto:Tara.Sikora@ed.gov)>; Puffer, Rhonda <[Rhonda.Puffer@ed.gov](mailto:Rhonda.Puffer@ed.gov)>  
**Subject:** RE: Dream Center BP

Attached are my edits. I tried to clean up as much as possible to respond to the margin comments/questions (see below highlighting).

---

**From:** Mangold, Donna  
**Sent:** Saturday, March 16, 2019 5:44 PM  
**To:** Jones, Diane; Adair, Lucas (John)  
**Cc:** O'Brien, Marianna  
**Subject:** FW: Dream Center BP

I am up to issue 7 on page 9. I will finish tomorrow

(b)(5)

(b)(5)

---

**From:** Mangold, Donna  
**Sent:** Friday, March 15, 2019 1:46 PM  
**To:** O'Brien, Marianna; Jones, Diane  
**Cc:** Adair, Lucas (John); Huston, John; Minor, Robin; Frola, Michael; Sikora, Tara  
**Subject:** RE: Dream Center BP

I am working on edits which I will now move to this version. If I don't finish today I will get them finished over the weekend. I am working from meeting notes from various meetings we had, so most of my edits are to update dates/times/participants.

---

**From:** O'Brien, Marianna  
**Sent:** Friday, March 15, 2019 1:33 PM  
**To:** Jones, Diane  
**Cc:** Adair, Lucas (John); Huston, John; Minor, Robin; Frola, Michael; Mangold, Donna; Sikora, Tara  
**Subject:** Dream Center BP

DELIBERATIVE DRAFT DOCUMENT

Attached is the Dream Center Briefing with FSA comments incorporated. The following is a commenter key.

JW = Wayne Johnson  
MR = Robin Minor  
PR = Rhonda Puffer, a financial analyst in Program Compliance  
FM = Mike Frola, PC  
AU = Todd May, PC

---

**From:** Malone, Emily  
**Sent:** Friday, March 15, 2019 10:36 AM  
**To:** O'Brien, Marianna; King, Elizabeth  
**Subject:** RE: Most Recent Dream Center Briefing

MOB: I just met with Wayne. I have his 12 comments. I am going to input them now to the document (code them as Wayne) and re-send on this chain.

Best,  
Emily

---

**From:** Malone, Emily  
**Sent:** Thursday, March 14, 2019 5:29 PM  
**To:** O'Brien, Marianna; King, Elizabeth  
**Subject:** Most Recent Dream Center Briefing

I am attaching the most recent version of Dream Center Briefing that we gave Wayne. It has the enlarged comments.

Best,  
Emily Malone

Office: (202) 377-4624  
Cell: (202) 763-6856

[Emily.Malone@ed.gov](mailto:Emily.Malone@ed.gov)

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of the Freedom of Information and Privacy Act

**Sikora, Tara**

---

**From:** Sikora, Tara  
**Sent:** Thursday, March 21, 2019 11:57 AM  
**To:** Minor, Robin; Jones, Diane; Frola, Michael; May, Todd  
**Cc:** Brown, Mark  
**Subject:** RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Hello all,

(b)(5)

(b)(5)

(b)(5)

Please let me know if you have any questions or need any additional information.

Tara

---

**From:** Sikora, Tara  
**Sent:** Thursday, March 21, 2019 9:55 AM  
**To:** Minor, Robin; Jones, Diane; Frola, Michael; May, Todd  
**Cc:** Brown, Mark  
**Subject:** RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Hi Diane,

(b)(5)

Please let me know if you need any additional information.

Tara

Tara Sikora  
Case Manager  
Multi-Regional and Foreign Schools Participation Division  
U.S. Department of Education, Federal Student Aid  
Office Hours: 7:30am – 4:00pm EST  
(215) 656-6488

---

**From:** Minor, Robin  
**Sent:** Thursday, March 21, 2019 9:39 AM  
**To:** Jones, Diane; Frola, Michael; Sikora, Tara; May, Todd  
**Cc:** Brown, Mark  
**Subject:** Re: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Diane, I am adding Mike and company to this as they made the changes. I am in Dallas and in and out of meetings so please let them know any other questions you have so you can get an immediate response. Thanks.

On Mar 21, 2019, at 8:34 AM, Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)> wrote:

(b)(5)

(b)(5)

---

**From:** Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>  
**Sent:** Wednesday, March 20, 2019 10:29 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Smith, Kathleen <[Kathleen.Smith@ed.gov](mailto:Kathleen.Smith@ed.gov)>  
**Cc:** Brown, Mark <[Mark.Brown@ed.gov](mailto:Mark.Brown@ed.gov)>  
**Subject:** Fwd: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Diane, the team made additional edits.

Begin forwarded message:

**From:** "May, Todd" <[Todd.May@ed.gov](mailto:Todd.May@ed.gov)>  
**Date:** March 20, 2019 at 5:47:02 PM CDT  
**To:** "O'Brien, Marianna" <[Marianna.OBrien@ed.gov](mailto:Marianna.OBrien@ed.gov)>, "Frola, Michael" <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>  
**Cc:** "Minor, Robin" <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>, "May, Todd" <[Todd.May@ed.gov](mailto:Todd.May@ed.gov)>  
**Subject:** RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Marianna –

Mike and I found a few minor changes – (b)(5)

(b)(5)

Thanks,

Todd

---

**From:** O'Brien, Marianna  
**Sent:** Wednesday, March 20, 2019 5:03 PM  
**To:** May, Todd; Frola, Michael  
**Subject:** FW: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Robin asked me to forward this to you – is this accurate.....

---

**From:** Brown, Mark  
**Sent:** Wednesday, March 20, 2019 1:27 PM  
**To:** O'Brien, Marianna; Minor, Robin  
**Cc:** Johnson, Wayne; Kane, John  
**Subject:** Fwd: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Are we working on a review or input to this? Let's try to be as helpful as possible.  
I'd like to see our inputs and release this afternoon if possible.

Sent from my iPhone

Begin forwarded message:

**From:** "Jones, Diane" <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>  
**Date:** March 19, 2019 at 9:38:57 PM EDT  
**To:** "Smith, Kathleen" <[Kathleen.Smith@ed.gov](mailto:Kathleen.Smith@ed.gov)>  
**Cc:** "Oppenheim, Peter" <[Peter.Oppenheim@ed.gov](mailto:Peter.Oppenheim@ed.gov)>, "Eitel, Robert" <[Robert.Eitel@ed.gov](mailto:Robert.Eitel@ed.gov)>, "Minor, Robin" <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>, "Brinton, Jed" <[Jed.Brinton@ed.gov](mailto:Jed.Brinton@ed.gov)>, "Mangold, Donna" <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>, "Brown, Mark" <[Mark.Brown@ed.gov](mailto:Mark.Brown@ed.gov)>  
**Subject:** RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

Here is the other document

-----Original Message-----

From: Jones, Diane  
Sent: Tuesday, March 19, 2019 9:38 PM  
To: Smith, Kathleen <[Kathleen.Smith@ed.gov](mailto:Kathleen.Smith@ed.gov)>  
Cc: Oppenheim, Peter <[Peter.Oppenheim@ed.gov](mailto:Peter.Oppenheim@ed.gov)>; Eitel, Robert <[Robert.Eitel@ed.gov](mailto:Robert.Eitel@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Brinton, Jed <[Jed.Brinton@ed.gov](mailto:Jed.Brinton@ed.gov)>; Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>; Brown, Mark <[Mark.Brown@ed.gov](mailto:Mark.Brown@ed.gov)>  
Subject: RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

(b)(5)

-----Original Message-----

From: Smith, Kathleen <[Kathleen.Smith@ed.gov](mailto:Kathleen.Smith@ed.gov)>  
Sent: Tuesday, March 19, 2019 4:57 PM  
To: Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>  
Cc: Oppenheim, Peter <[Peter.Oppenheim@ed.gov](mailto:Peter.Oppenheim@ed.gov)>; Eitel, Robert <[Robert.Eitel@ed.gov](mailto:Robert.Eitel@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Brinton, Jed <[Jed.Brinton@ed.gov](mailto:Jed.Brinton@ed.gov)>; Smith, Kathleen <[Kathleen.Smith@ed.gov](mailto:Kathleen.Smith@ed.gov)>  
Subject: RE: Is this accurate - INTERNAL DELIBERATIVE CONFIDENTIAL

From this you guys will add:

(b)(5)



(b)(5)

THANK YOU

If we can please get this by tomorrow mid day so we can have for Thursday mocs...that would be great.

-----Original Message-----

From: Smith, Kathleen

Sent: Tuesday, March 19, 2019 4:18 PM

To: Jones, Diane

Cc: Oppenheim, Peter; Eitel, Robert; Minor, Robin; Brinton, Jed

Subject: Is this accurate - INTERNAL DELIBERATIVE

CONFIDENTIAL

(b)(5)

Please edit at will ASAP

Sent from my iPhone

**Jones, Diane**

---

**From:** Jones, Diane  
**Sent:** Friday, March 22, 2019 3:54 PM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Subject:** RE: Ai Chicago and Colorado -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

Diane

---

**From:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Sent:** Friday, March 22, 2019 11:59 AM  
**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Subject:** Ai Chicago and Colorado -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

(b)(5)

(b)(5)

(b)(5)

Donna Mangold  
202-453-6710

**Sikora, Tara**

---

**From:** Sikora, Tara  
**Sent:** Monday, March 25, 2019 12:02 PM  
**To:** Frola, Michael; Mangold, Donna; Minor, Robin; Bennett, Ron; Finley, Steve  
**Cc:** Jones, Diane  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

I haven't heard of them either. I've also never heard of this type of scenario: they do not have an OPE ID number, but that they have some sort of Court Order from 1987 has anyone else?

Tara

---

**From:** Frola, Michael  
**Sent:** Monday, March 25, 2019 11:55 AM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Sikora, Tara; Finley, Steve  
**Cc:** Jones, Diane  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

I've never heard of them.

---

**From:** Mangold, Donna  
**Sent:** Monday, March 25, 2019 11:53 AM  
**To:** Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Jones, Diane  
**Subject:** FW: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

This ring any bells?

---

**From:** Mary K Whitmer [mailto:mkw@weadvocate.net]  
**Sent:** Monday, March 25, 2019 10:40 AM  
**To:** Mangold, Donna  
**Cc:** Glickman, Robert T.; Dottore Companies LLC (mark@dottoreco.com); Charles A Dottore (charlie@dottoreco.com); James W Ehrman  
**Subject:** FW: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

Donna,

We have Cathedral St. Augustine's trying to purchase school assets. They say they do not have an OPE ID number, but that they have some sort of Court Order from 1987 that allows them to obtain an OPE ID number and so on.

I am trying to determine if this is a legitimate group, so I thought I would reach out to you. You may or may not know who they are.

We just don't want to waste time with a group that cannot by definition perform. However, if they are legitimate and DOE might recognize them, we will begin a discussion.

Mary

Mary K. Whitmer



2344 Canal Road, Suite 401  
Cleveland, Ohio 44113-2535  
Firm: 216.771.5056  
Cell: 330.329.7500  
Email: [mkw@WEadvocate.net](mailto:mkw@WEadvocate.net)

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---

**From:** Glickman, Robert T. [mailto:[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)]  
**Sent:** Friday, March 22, 2019 5:31 PM  
**To:** 'mark <[mark@dottoreco.com](mailto:mark@dottoreco.com)>; Mary K Whitmer <[mkw@weadvocate.net](mailto:mkw@weadvocate.net)>  
**Subject:** Fwd: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

See below.

Sent from my iPhone

Rob Glickman  
McCarthy Lebit Crystal & Liffman  
101 W. Prospect Avenue  
Suite 1800  
Cleveland, Ohio. 44115  
(216) 696-1422  
Fax (216) 696-1210  
[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)

Begin forwarded message:

**From:** "Cathedral St. Augustine's" <[cathedral@staugustines-usa.com](mailto:cathedral@staugustines-usa.com)>  
**Date:** March 22, 2019 at 5:13:33 PM EDT  
**To:** <[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)>  
**Subject:** Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\*  
Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND  
ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

A confirmatory email acknowledging receipt of this transmittal is requested. Thank you.

On Thu, Mar 21, 2019 at 3:32 PM Cathedral St. Augustine's <[cathedral@staugustines-usa.com](mailto:cathedral@staugustines-usa.com)> wrote:

Greetings Attorney Glickman.

it is the desire of our faith based religious organization to acquire assets comprising the Argosy University and Art Institutes ("AU - AI"). Alternatively, facilitate an alliance for purposes of expansion and actualization "College of Law", "College of Engineering", "College of Nursing and Allied Health", "College of Education", et al.

Importantly, St. Augustine's request your firm consider recommendation that the U.S. Federal District Court Ohio Order the *closure* of the "AU - AI" as an Institution of Higher Education, Trustees for the Education Services Administration, St. Augustine's National Foundation request Receiver is encouraged to consider petitioning the Court to transition specific assets of the "AU - AI" to the "University St. Augustine's", less financial liabilities and obligations.

Significantly, in consideration of a potential acquisition or alliance, request your firm consider petitioning the Court Order the *preservation* of "AU - AI's" *rights to access the FSA*; pursuant to HEA 1965; PELL Grant, and Title IV, *and assign said rights to the "University St. Augustine's"*. Authority as such shall be granted on the basis of "AU - AI's" eligibility to Institutional and Program Accreditation, facilities, qualified faculty.

Thereby, explicitly perfecting a "merger consolidation" that will ensure the continual operations of the AU - AI" as an Institution of Higher Education by the "University St. Augustine's" as the new Owner.

As such, the current students registered, enrolled, and attending "AU - AI" shall be able to continue academic educational studies, without interruption of studies.

Cathedral St. Augustine's has access to financial resources to consummate the assignment and transition of Ownership interest in specific assets; "AU - AI" University Education Charter and Licenses, Campus Facilities; Michigan, DC Region, Georgia, as Receiver shall deemed appropriate to recommend.

At your earliest convenience, available to conference and discuss St. Augustine's interest in acquisition of the assets for Argosy University and Institute of Arts Campuses.

Respectfully. Blessings. Anne 248.667.1400

## REFERENCES

Web contact: [www.staugustines-usa.com](http://www.staugustines-usa.com)

Click: \* St. Aug News

Click: \* USA - "University St. Augustine's"

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- \* **History and Authority**

St. Augustine's Institutes: Authority

\* ["University St. Augustine's & Institutes of Medicine" MI Corporate ~ Reservations](#)

\* ["CECIPSA" - USA - UC" ~ Jordan Powell White House Academy](#)

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF OHIO EASTERN DIVISION  
DIGITAL MEDIA SOLUTIONS, LLC, Plaintiff, v. SOUTH UNIVERSITY OF OHIO, LLC, et. al.,  
[CASE NO. 1:19-cv-145](#)

Robert T. Glickman  
216.696.1422  
[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)

Kevin M. Bannon, Esquire, Controller | Trustee  
Cathedral St. Augustine's  
Securities | Trust  
248.643.3343

Respectfully, Anne 248.667.1400

Anne Worthy, Trustees Affairs  
Institutional Advancement  
Development Administration

- U.S. Federal Court Appointed Assignee; Shaw College At Detroit | University Educational Charter
- University St. Augustine's & Institutes of Medicine; Meharry College, LLC
- Co Char, St. Augustine's National Foundation | Founder, Meharry Allied Health Learning Center, Inc | USA - University College - 21st Learning Centers
- Caroline Education Community International | Public School Academy | PSA
- KLYCE Real Estate Investment Trust, LLC | Heritage Legacy Trust | KMP Cemetery

1629 K Street NW; Suite 300 | 17520 W. Twelve Mile Road; Suite 200 | 13850 Grand River  
Washington DC 20006 Southfield, MI 48076 Detroit, MI 48227  
248.667.1400 248.443.4979\*F

Web Contacts:

[www.staugustines-usa.com](http://www.staugustines-usa.com) | [St. Augustine's National Foundation](#) | [National Cathedral Celebrations](#)  
[amazon smiles](#)

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**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Monday, March 25, 2019 12:45 PM  
**To:** Finley, Steve; Jones, Diane; Minor, Robin; Frola, Michael; Bennett, Ron; Sikora, Tara  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

(b)(5)

**From:** Finley, Steve  
**Sent:** Monday, March 25, 2019 12:34 PM  
**To:** Jones, Diane; Minor, Robin; Frola, Michael; Mangold, Donna; Bennett, Ron; Sikora, Tara  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

(b)(5)

**From:** Jones, Diane  
**Sent:** Monday, March 25, 2019 12:07 PM  
**To:** Minor, Robin; Frola, Michael; Mangold, Donna; Bennett, Ron; Sikora, Tara; Finley, Steve  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

Me neither. (b)(5)

**From:** Minor, Robin <Robin.Minor@ed.gov>  
**Sent:** Monday, March 25, 2019 12:02 PM  
**To:** Frola, Michael <Michael.Frola@ed.gov>; Mangold, Donna <Donna.Mangold@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Jones, Diane <Diane.Jones@ed.gov>  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

Me either.

**From:** Frola, Michael  
**Sent:** Monday, March 25, 2019 11:55 AM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Sikora, Tara; Finley, Steve  
**Cc:** Jones, Diane  
**Subject:** RE: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

I've never heard of them.

---

**From:** Mangold, Donna  
**Sent:** Monday, March 25, 2019 11:53 AM  
**To:** Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Jones, Diane  
**Subject:** FW: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

This ring any bells?

---

**From:** Mary K Whitmer [<mailto:mkw@weadvocate.net>]  
**Sent:** Monday, March 25, 2019 10:40 AM  
**To:** Mangold, Donna  
**Cc:** Glickman, Robert T.; Dottore Companies LLC ([mark@dottoreco.com](mailto:mark@dottoreco.com)); Charles A Dottore ([charlie@dottoreco.com](mailto:charlie@dottoreco.com)); James W Ehrman  
**Subject:** FW: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

Donna,

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I am trying to determine if this is a legitimate group, so I thought I would reach out to you. You may or may not know who they are.

We just don't want to waste time with a group that cannot by definition perform. However, if they are legitimate and DOE might recognize them, we will begin a discussion.

Mary

Mary K. Whitmer



2344 Canal Road, Suite 401  
Cleveland, Ohio 44113-2535  
Firm: 216.771.5056  
Cell: 330.329.7500  
Email: [mkw@WEadvocate.net](mailto:mkw@WEadvocate.net)

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---

**From:** Glickman, Robert T. [<mailto:rtg@mccarthylebit.com>]  
**Sent:** Friday, March 22, 2019 5:31 PM  
**To:** 'mark' <[mark@dottoreco.com](mailto:mark@dottoreco.com)>; Mary K Whitmer <[mkw@weadvocate.net](mailto:mkw@weadvocate.net)>  
**Subject:** Fwd: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\* Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\*

See below.

Sent from my iPhone

Rob Glickman  
McCarthy Lebit Crystal & Liffman  
101 W. Prospect Avenue  
Suite 1800  
Cleveland, Ohio. 44115  
(216) 696-1422  
Fax (216) 696-1210  
[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)

Begin forwarded message:

**From:** "Cathedral St. Augustine's" <[cathedral@staugustines-usa.com](mailto:cathedral@staugustines-usa.com)>  
**Date:** March 22, 2019 at 5:13:33 PM EDT  
**To:** <[rtg@mccarthylebit.com](mailto:rtg@mccarthylebit.com)>  
**Subject: Cathedral St. Augustine's: HIGH IMPORTANCE \*\*\* HIGH PRIORITY \*\*\*  
Asset Acquisition - Merger Consolidation ~ ARGOSY UNIVERSITY CAMPUSES AND  
ART INSTITUTES CAMPUSES ~ Alliances ~ \*\*\***

A confirmatory email acknowledging receipt of this transmittal is requested. Thank you.

On Thu, Mar 21, 2019 at 3:32 PM Cathedral St. Augustine's <[cathedral@staugustines-usa.com](mailto:cathedral@staugustines-usa.com)> wrote:

Greetings Attorney Glickman.

it is the desire of our faith based religious organization to acquire assets comprising the Argosy University and Art Institutes ("AU - AI"). Alternatively, facilitate an alliance for purposes of expansion and actualization "College of Law", "College of Engineering", "College of Nursing and Allied Health", "College of Education", et al.

Importantly, St. Augustine's request your firm consider recommendation that the U.S. Federal District Court Ohio Order the *closure* of the "AU - AI" as an Institution of Higher Education, Trustees for the Education Services Administration, St. Augustine's National Foundation request Receiver is encouraged to consider petitioning the Court to transition specific assets of the "AU - AI" to the "University St. Augustine's", less financial liabilities and obligations.

Significantly, in consideration of a potential acquisition or alliance, request your firm consider petitioning the Court Order the *preservation* of "AU - AI's" rights to access the FSA; pursuant to HEA 1965; PELL Grant, and Title IV, and assign said rights to the "University St. Augustine's". Authority as such shall be granted on the basis of "AU - AI's" eligibility to Institutional and Program Accreditation, facilities, qualified faculty.

Thereby, explicitly perfecting a "merger consolidation" that will ensure the continual operations of the AU - AI" as an Institution of Higher Education by the "University St. Augustine's" as the new Owner.

As such, the current students registered, enrolled, and attending "AU - AI" shall be able to continue academic educational studies, without interruption of studies.

Cathedral St. Augustine's has access to financial resources to consummate the assignment and transition of Ownership interest in specific assets; "AU - AI" University Education Charter and Licenses, Campus Facilities; Michigan, DC Region, Georgia, as Receiver shall deemed appropriate to recommend.

At your earliest convenience, available to conference and discuss St. Augustine's interest in acquisition of the assets for Argosy University and Institute of Arts Campuses.

Respectfully. Blessings. Anne 248.667.1400

## REFERENCES

Web contact: [www.staugustines-usa.com](http://www.staugustines-usa.com)

Click: \* St. Aug News

Click: \* USA - "University St. Augustine's"

### St. Augustine's Institutes Colleges & Universities

- \* **Complete Sign-In**
- \* **Click "Home", and**
- \* **Click [UNIVERSITY COLLEGE](#)**
  
- \* **History and Authority**

St. Augustine's Institutes: Authority

\* ["University St. Augustine's & Institutes of Medicine" MI Corporate ~ Reservations](#)

\* ["CECIPSA" - USA - UC" ~ Jordan Powell White House Academy](#)

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF OHIO EASTERN DIVISION  
DIGITAL MEDIA SOLUTIONS, LLC, Plaintiff, v. SOUTH UNIVERSITY OF OHIO, LLC, et. al.,

[CASE NO. 1:19-cv-145](#)

Robert T. Glickman

216.696.1422

[rtg@mccarthyebit.com](mailto:rtg@mccarthyebit.com)

Kevin M. Bannon, Esquire, Controller | Trustee  
Cathedral St. Augustine's  
Securities | Trust  
248.643.3343

Respectfully, Anne 248.667.1400

Anne Worthy, Trustees Affairs  
Institutional Advancement  
Development Administration

- U.S. Federal Court Appointed Assignee; Shaw College At Detroit | University Educational Charter
- University St. Augustine's & Institutes of Medicine; Meharry College, LLC
- Co Char, St. Augustine's National Foundation | Founder, Meharry Allied Health Learning Center, Inc | USA - University College - 21st Learning Centers
- Caroline Education Community International | Public School Academy | PSA
- KLYCE Real Estate Investment Trust, LLC | Heritage Legacy Trust | KMP Cemetery

1629 K Street NW; Suite 300 | 17520 W. Twelve Mile Road; Suite 200 | 13850 Grand River  
Washington DC 20006 Southfield, MI 48076 Detroit, MI 48227

248.667.1400

248.443.4979\*F

Web Contacts:

[www.staugustines-usa.com](http://www.staugustines-usa.com) | [St. Augustine's National Foundation](#) | [National Cathedral Celebrations](#)  
[amazon smiles](#)

**NOTICE OF CONFIDENTIALITY**

This e-mail and any attachments is covered by the Electronic Communications Privacy Act, 18 U.S.C. 2510-2521 and may contain privileged, confidential, copyrighted, and may be deemed as confidential and intellectual property or other legally protected information, and is subject to the privileges preserved in the interest of Cathedral of St. Augustine's and its related affiliates, associates, and work product. The contents of this transmittal shall be governed in accordance with NDA-NCA, and is deemed in full force and effect. The information contained in this communication is intended only for the use of the individual(s) to whom this communication is directed and may not be viewed, copied or distributed by others without permission. St. Augustine's, hereby claims all applicable privileges related to information herein PUBLIC AFFAIRS:

**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Tuesday, April 2, 2019 10:48 AM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Eitel, Robert; Bailey, Nathan  
**Subject:** FW: Dream Center: Order regarding letter of credit -- ATTORNEY CLIENT  
CONFIDENTIAL COMMUNICATION  
**Attachments:** 214 - Receiver Payroll update.pdf; 217 - order re payroll.pdf

(b)(5)

---

**From:** Jacobson, Jonathan E. (CIV) [mailto:Jonathan.E.Jacobson@usdoj.gov]  
**Sent:** Monday, April 01, 2019 5:39 PM  
**To:** Randolph, Lloyd (CIV); Pham, Danielle (CIV)  
**Cc:** Mangold, Donna; Finley, Steve  
**Subject:** Dream Center: Order regarding letter of credit

All,

(b)(5)

(b)(5)

Jonathan

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC, ) CASE NO. 1:19-cv-145  
)  
Plaintiff, ) JUDGE DAN AARON POLSTER  
)  
v. ) MAGISTRATE JUDGE  
) THOMAS M. PARKER  
SOUTH UNIVERSITY OF OHIO, )  
LLC, *et. al.*, )  
)  
Defendants. )

---

RECEIVER'S AMENDED\* REPORT REGARDING  
PAY STATUS OF EMPLOYEES

---

Pursuant to this Court's Order of March 15, 2019 [Dkt. No. 172], Mark E. Dottore, (the "**Receiver**") the duly appointed and acting Receiver of the Receivership Entities submits this Report concerning the pay status of employees:

**Payroll on the Date of the Receiver's Appointment.**

One week's accrued and unpaid payroll on January 18, 2019, the date the Receiver was appointed was \$2.7 million, plus approximately 12% for tax liabilities that had accrued on that date. These pre-Receiver amounts were paid with the February 1, 2019 payroll.

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\* This report is amended *solely* to correct the dates appearing in the third and fourth lines on the following page to conform the report to the correction given at the hearing held on March 18, 2019. Other than in the signature block, there are no changes in this Amended Report to what was filed as ECF Doc. 183.



### **Nature and Extent of Current Unpaid Payroll**

Due to the sudden loss of Title IV funding for Argosy University, the Receiver was unable to make payroll for the Argosy University campuses, and the Excluded Campuses for the two-week period ending March 8, 2019 and scheduled to be paid March 15, 2019. The total amount of unpaid Argosy University payroll is \$1,507,557.42; the amount of unpaid payroll for the Excluded Campuses is \$983,707.03. See Exhibit A for breakdown by account number.

### **Sources of Funding for the Unpaid Payroll**

The Receiver has identified various sources of funding for the payrolls. They are as follows:

#### **Cash in Bank of America Former Bank Accounts**

To begin with, the Receiver has located some cash accounts that were on deposit at Bank of America. Bank of America was the depository for Argosy University Group (“**Argosy**”) and Dream Center Educational Holdings LLC (“**DCEH**”). Bank of America was holding scores of accounts with small balances. The Receiver moved these accounts to the Receivership accounts this week. They include Account #1191 labeled “AU/DCEH Operating” with \$150,000.00; Account #5908 labeled “Argosy Perkins” with \$339,155.12; Account #2762 labeled “AU Phoenix AZ State Grant” with \$4,429.00; Account #4670 labeled AU AI CA State Grant with \$175,947.88; an account labeled “AU Atlanta GA State Grant with \$62,516.00; an account labeled Argosy State Grant with \$198,083.52; an account labeled Argosy MN State Grant with \$62,348.00; and an account labeled “Donations” with \$194,273.79. The total of these accounts is \$1,186,753.31.

These account balances, and others that might be applied, might have restrictions on their use. The Receiver is investigating to determine if he can apply the funds to the unpaid payroll balances. Also, as the Court is aware, the Receiver is holding \$1.5 million upon the Court's Order, until it can determined whether it should be held in trust to be paid to students.

The total amount of cash which might be applied to the unpaid payroll is at least \$2,686,753.31.

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The Receiver has retained Hilco Global to remove and sell personal property at the various campus locations and sell that property. Property liquidations will occur quickly, as landlords are demanding that the Receiver exit property in the shortest possible time. In addition, DCEH has its IT assets, which it will sell. While these assets are in DCEH, they comprise the collateral for undersecured secured lenders (see below), and if the secured lenders consent, the money could be used for these payrolls.

### **Litigation**

The Receiver is exploring the option of filing various lawsuits. Director and officer liability insurance is in effect, and recoveries that are insured by these policies may be a source of funding for payroll. In addition, there appear to be sizable insider transfers that could be recovered. Obviously it will take a significant amount of time to identify these causes of action, develop them to the point of filing, litigate and recover funds.

### **The Department of Education**

At the time of the Studio Transaction, the United States Department of Education (“**DOE**”) was holding approximately \$10.5 million which was the proceeds of letters of credit posted with the DOE. Although the DOE has previously refused requests to fund Argosy’s closure with these funds, or any other funds, the Receiver remains hopeful that the DOE will make concessions when it is in the interest of the United States to do so.

### **The Candlewood Holdback Fund**

There is a substantial fund of money that was placed in an escrow account at Morrison & Forester to pay the legal expenses of the Secured Lenders (as described below) who were preparing documentation of the January, 2019, Studio Transaction. If any of the money is left after all of the Secured Lenders’ attorneys are compensated, the fund belongs to the universities. The original arrangement contained a number of terms and conditions, and contemplated a two-year time period for holding the escrow open. The secured lenders and the Receiver are in discussions to recover some of this fund, with the expectation that such a recovery could be in excess of \$100,000. Studio also had such a fund, and it is not known whether the attorney fees exceeded the fund amount.

### **Receiver’s Plan to Pay Unpaid Payroll**

The Receiver has requested that the payroll be analyzed by job description (See, Exhibit B). Each unpaid employee has been placed in one of four classifications: Student, Administrative, Faculty and Dean/Executive. The Receiver proposes to pay the students, first, in full, and the administrative personnel, second,

in full. In this way, the most vulnerable will be paid with the first funds received, and those who likely earn more will be paid with the later funds.

The Receiver then proposes to pay the faculty, third, with a temporary limit established of \$3,500 for each faculty member. Then finally to pay the Deans/Executives with the same temporary limit of \$3,500. The balance due to each employee will be paid pro rata. This is designed so that these employee groups will equitable share the burden imposed by the delay.

The Receiver submits that such a payment system is fair and equitable given the situation. This Court sits in equity, and this equitable arrangement is subject to the Court's approval.

### **Lien Interests and Other Issues and Impediments**

The interests of lien holders and others who have an interest in money collected by the Receiver on behalf of the various Receivership Entities must be reviewed. Presently, there are two principal consensual secured creditors. U.S. Bank N.A. is agent for one group of consensual secured lenders (the "**Secured Lenders**"), but as a practical matter, Flagler Master Fund SPC, Ltd. ("**Flagler**") is the contact person for the primary secured lender.<sup>1</sup> Studio Enterprise Manager LLC ("**Studio**") also claims a lien in some of the Receivership Entities, but it is not owed any money.

---

<sup>1</sup> This group has been more properly described as, Flagler Master Fund SPC Ltd. as a lender under the Credit Agreement<sup>1</sup> and as a secured party and beneficiary of each of the First Lien Pledge and Security Agreement,<sup>1</sup> Second Lien Guaranty<sup>1</sup> and the Second Lien Pledge and Security Agreement,<sup>1</sup> and U.S. Bank, National Association, acting in its capacity as administrative agent and collateral agent under the Credit Agreement and as collateral agent under the First Lien Pledge and Security Agreement (in such capacities, the "DCEH Agent"), and as EDMC Agent under each of the Second Lien Guaranty and the Second Lien Pledge and Security Agreement.

The United States is also a substantial interest holder and by statute holds a lien interest in Argosy's assets, and in the assets of other Receivership Entities, by virtue of the federal priority statute, 31 U.S.C. § 3713. Argosy's closure has triggered student discharge indebtedness. In addition, the Receiver understands that students who did not receive their stipends have been applying for, and receiving, loan discharges. The effect of the loan forgiveness, if it is occurring, is that the taxpayers are shouldering the burden of the failure to pay student stipends.

Which entities are subject to this lien, when the lien attaches, and to what that lien attaches, is yet to be discussed and decided. Also pressing is the priority of the federal government's lien, and whether it primes properly perfected, consensual liens of record, such as that of the Secured Lenders. The United States needs to be a party in these proceedings so that it will receive proper notice of matters affecting its interests, and the Court's orders determining payment and priorities will bind it.

There are other interest holders who may make appearances in regard to this issue.

Dated: March 29, 2019

Respectfully submitted,

/s/ James W. Ehrman  
Mary K. Whitmer (0018213)  
James W. Ehrman (0011006)  
Robert M. Stefancin (0047184)  
WHITMER & EHRMAN LLC  
2344 Canal Road, Suite 401  
Cleveland, Ohio 44113-2535  
Telephone: (216) 771-5056  
Telecopier: (216) 771-2450  
Email: mkw@WEadvocate.net  
jwe@WEadvocate.net  
rms@WEadvocate.net

*Counsel for Mark E. Dottore, Receiver*

IN THE UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC,	)	Case No. 1:19-cv-145
	)	
Plaintiff,	)	JUDGE DAN AARON POLSTER
	)	
v.	)	MAGISTRATE JUDGE
	)	THOMAS M. PARKER
SOUTH UNIVERSITY	)	
OF OHIO, LLC, <i>et al.</i>	)	<b><u>ORDER CONCERNING PAYROLL</u></b>
	)	<b><u>PAYMENT PLAN</u></b>
Defendants.	)	

As reflected in earlier orders of the court, ([ECF Doc. 172](#), [ECF Doc. 190](#)) the status of Receiver Mark Dottore’s satisfaction of payroll obligations to the employees of entities in receiverships remains a concern. The court has received numerous additional reports and emails concerning the receiver’s failure to make payroll payments for work done by receivership entities in the period after the receiver was appointed.

In the receiver’s report regarding pay status of employees ([ECF Doc. 183](#)), Receiver Dottore reported his efforts to secure the funds necessary to satisfy payroll obligations. The receiver later updated that report, clarifying the dates from the first report ([ECF Doc. 214](#)). The receiver’s two status reports described his efforts to accumulate funds held in various accounts connected to the entities in receivership, approximately \$1.1 million. He also reported on \$1.5 million in funds had been allocated for student stipend payments. He reported on the \$10.5 million in letter of credit proceeds he asserts Argosy receivership entities posted with the United States Department of Education. Finally, the receiver reported on certain funds held back by DCEH’s secured lenders.

The receiver asserts he is currently unable to commit to using any of these potential sources of funding to satisfy his payroll obligations, because he faces contingent obligations as to each source of funds. Notwithstanding these contingencies, the receiver has proposed a plan to pay unpaid payroll. Given the limited other options available to the receiver and the need to get receivership employees paid, at least in part, for periods worked after the receiver was appointed, the court hereby directs the receiver to:

1. Proceed with the payroll payment plan described in [ECF Doc. 214](#), Page ID# 4204-4205.
2. Determine within seven (7) days whether the U.S. Department of Education will approve a limited draw down upon the letter of credit for the sole purpose of making prompt payment of any remaining, unpaid payroll obligations owed to receivership employees. Should Department of Education require a court order for that purpose, this order shall be considered authorization to make such a draw.

IT IS SO ORDERED.

*s/Dan Aaron Polster*  
United States District Judge

Dated: April 1, 2019

(b)(6)

  
Thomas M. Parker  
United States Magistrate Judge



**Minor, Robin**

---

**From:** Minor, Robin  
**Sent:** Tuesday, April 2, 2019 1:26 PM  
**To:** Mangold, Donna; Eitel, Robert; Jones, Diane  
**Cc:** Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve; Bailey, Nathan  
**Subject:** RE: Dream Center: Order regarding letter of credit -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

---

**From:** Mangold, Donna  
**Sent:** Tuesday, April 02, 2019 11:33 AM  
**To:** Eitel, Robert; Jones, Diane  
**Cc:** Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve; Bailey, Nathan  
**Subject:** RE: Dream Center: Order regarding letter of credit -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

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**From:** Eitel, Robert  
**Sent:** Tuesday, April 02, 2019 11:14 AM  
**To:** Jones, Diane; Mangold, Donna  
**Cc:** Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve; Bailey, Nathan  
**Subject:** RE: Dream Center: Order regarding letter of credit -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

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**From:** Jones, Diane  
**Sent:** Tuesday, April 02, 2019 11:13 AM  
**To:** Mangold, Donna  
**Cc:** Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve; Eitel, Robert; Bailey, Nathan  
**Subject:** Re: Dream Center: Order regarding letter of credit -- ATTORNEY CLIENT CONFIDENTIAL COMMUNICATION

(b)(5)

Sent from my iPhone

On Apr 2, 2019, at 10:47 AM, Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)> wrote:

(b)(5)

---

**From:** Jacobson, Jonathan E. (CIV) [<mailto:Jonathan.E.Jacobson@usdoj.gov>]  
**Sent:** Monday, April 01, 2019 5:39 PM  
**To:** Randolph, Lloyd (CIV); Pham, Danielle (CIV)  
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**Subject:** Dream Center: Order regarding letter of credit

All,

(b)(5)

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(b)(5)

Jonathan

<214 - Receiver Payroll update.pdf>

<217 - order re payroll.pdf>

**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Saturday, April 6, 2019 1:44 PM  
**To:** Jones, Diane; Eitel, Robert; Minor, Robin; Brinton, Jed  
**Cc:** Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve

**Subject:**

(b)(5)

**Attachments:**

(b)(5)

---

**From:** Jacobson, Jonathan E. (CIV) [mailto:Jonathan.E.Jacobson@usdoj.gov]  
**Sent:** Saturday, April 06, 2019 9:24 AM  
**To:** Mangold, Donna  
**Subject:** Fwd: (b)(5); 4\_5\_19 w LHR cmts (002)

Donna,

Can you get us sign off on this (b)(5) by today do you think?

Jonathan

Sent from my iPhone

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC,	)	CASE NO. 1:19-cv-145
	)	
Plaintiff,	)	JUDGE DAN AARON POLSTER
	)	
v.	)	MAGISTRATE JUDGE
	)	THOMAS M. PARKER
SOUTH UNIVERSITY OF OHIO,	)	
LLC, <i>et. al.</i> ,	)	
	)	
Defendants.	)	

---

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<sup>1</sup> This group has been more properly described as, Flagler Master Fund SPC Ltd. as a lender under the Credit Agreement<sup>1</sup> and as a secured party and beneficiary of each of the First Lien Pledge and Security Agreement,<sup>1</sup> Second Lien Guaranty<sup>1</sup> and the Second Lien Pledge and Security Agreement,<sup>1</sup> and U.S. Bank, National Association, acting in its capacity as administrative agent and collateral agent under the Credit Agreement and as collateral agent under the First Lien Pledge and Security Agreement (in such capacities, the "DCEH Agent"), and as EDMC Agent under each of the Second Lien Guaranty and the Second Lien Pledge and Security Agreement.



The United States is also a substantial interest holder and by statute holds a lien interest in Argosy's assets, and in the assets of other Receivership Entities, by virtue of the federal priority statute, 31 U.S.C. § 3713. Argosy's closure has triggered student discharge indebtedness. In addition, the Receiver understands that students who did not receive their stipends have been applying for, and receiving, loan discharges. The effect of the loan forgiveness, if it is occurring, is that the taxpayers are shouldering the burden of the failure to pay student stipends.

Which entities are subject to this lien, when the lien attaches, and to what that lien attaches, is yet to be discussed and decided. Also pressing is the priority of the federal government's lien, and whether it primes properly perfected, consensual liens of record, such as that of the Secured Lenders. The United States needs to be a party in these proceedings so that it will receive proper notice of matters affecting its interests, and the Court's orders determining payment and priorities will bind it.

There are other interest holders who may make appearances in regard to this issue.

Dated: March 29, 2019

Respectfully submitted,

/s/ James W. Ehrman

Mary K. Whitmer (0018213)

James W. Ehrman (0011006)

Robert M. Stefancin (0047184)

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*Counsel for Mark E. Dottore, Receiver*

IN THE UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC,	)	Case No. 1:19-cv-145
	)	
Plaintiff,	)	JUDGE DAN AARON POLSTER
	)	
v.	)	MAGISTRATE JUDGE
	)	THOMAS M. PARKER
SOUTH UNIVERSITY	)	
OF OHIO, LLC, <i>et al.</i>	)	<b><u>ORDER CONCERNING PAYROLL</u></b>
	)	<b><u>PAYMENT PLAN</u></b>
Defendants.	)	

As reflected in earlier orders of the court, ([ECF Doc. 172](#), [ECF Doc. 190](#)) the status of Receiver Mark Dottore’s satisfaction of payroll obligations to the employees of entities in receiverships remains a concern. The court has received numerous additional reports and emails concerning the receiver’s failure to make payroll payments for work done by receivership entities in the period after the receiver was appointed.

In the receiver’s report regarding pay status of employees ([ECF Doc. 183](#)), Receiver Dottore reported his efforts to secure the funds necessary to satisfy payroll obligations. The receiver later updated that report, clarifying the dates from the first report ([ECF Doc. 214](#)). The receiver’s two status reports described his efforts to accumulate funds held in various accounts connected to the entities in receivership, approximately \$1.1 million. He also reported on \$1.5 million in funds had been allocated for student stipend payments. He reported on the \$10.5 million in letter of credit proceeds he asserts Argosy receivership entities posted with the United States Department of Education. Finally, the receiver reported on certain funds held back by DCEH’s secured lenders.

The receiver asserts he is currently unable to commit to using any of these potential sources of funding to satisfy his payroll obligations, because he faces contingent obligations as to each source of funds. Notwithstanding these contingencies, the receiver has proposed a plan to pay unpaid payroll. Given the limited other options available to the receiver and the need to get receivership employees paid, at least in part, for periods worked after the receiver was appointed, the court hereby directs the receiver to:

1. Proceed with the payroll payment plan described in [ECF Doc. 214](#), Page ID# 4204-4205.
2. Determine within seven (7) days whether the U.S. Department of Education will approve a limited draw down upon the letter of credit for the sole purpose of making prompt payment of any remaining, unpaid payroll obligations owed to receivership employees. Should Department of Education require a court order for that purpose, this order shall be considered authorization to make such a draw.

IT IS SO ORDERED.

*s/Dan Aaron Polster*  
United States District Judge

Dated: April 1, 2019

(b)(6)

Thomas M. Parker  
United States Magistrate Judge

Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act

Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act

April 4, 2019

**VIA OVERNIGHT & EMAIL**

Diane Auer Jones  
Principal Deputy Under Secretary  
United States Department of Education  
Lyndon Baines Johnson Dept. of Education Building  
400 Maryland Ave, SW  
Washington, DC 20202

Re: Release of funds from Dream Center Education Holdings LLC's  
Line of Credit

Dear Ms. Jones:

Please accept this letter as a formal request that the Department release \$2.5 million dollars from the Dream Center Education Holdings LLC line of credit to be used to satisfy payroll obligations currently accrued and unpaid.

The United States District Court for the Northern District of Ohio has taken a keen interest in ensuring that payroll obligations be satisfied in a timely fashion. To that end, Judge Polster issued an Order last night directing the Receiver to request that the Department release the monies for the "sole purpose of making prompt payment of any remaining, unpaid payroll obligations owed to receivership employees." A copy of the Order is enclosed for your review. At this point, there are \$2.5 million dollars of payroll accrued and unpaid, hence the request of that amount.

Please note that the Court stated "Should Department of Education require a court order for that purpose, this order shall be considered authorization to make such a draw." I ask that you contact me as soon as possible to discuss this request, so that I can timely inform the Court of the Department's response.

Very truly yours,

/s/ Mary K. Whitmer  
Mary K. Whitmer

Enclosure

cc: Mark Dottore (*via e-mail only*)  
Charles A. Nemer (*via e-mail only*)  
Hugh D. Berkson (*via e-mail only*)

IN THE UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

DIGITAL MEDIA SOLUTIONS, LLC,	)	Case No. 1:19-cv-145
	)	
Plaintiff,	)	JUDGE DAN AARON POLSTER
	)	
v.	)	MAGISTRATE JUDGE
	)	THOMAS M. PARKER
SOUTH UNIVERSITY	)	
OF OHIO, LLC, <i>et al.</i>	)	<b><u>ORDER CONCERNING PAYROLL</u></b>
	)	<b><u>PAYMENT PLAN</u></b>
Defendants.	)	

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IT IS SO ORDERED.

*s/Dan Aaron Polster*  
United States District Judge

Dated: April 1, 2019

  
Thomas M. Parker  
United States Magistrate Judge

**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Thursday, April 11, 2019 5:49 PM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Subject:** FW: New documents: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 257, N.D. Ohio 1:19-cv-00145-DAP)  
**Attachments:** 2019-04-11 Third Status Report [dckt 257\_0].pdf; 2019-04-11 Third Status Report [dckt 257\_1].pdf; 2019-04-11 Third Status Report [dckt 257\_2].pdf; 2019-04-11 Third Status Report [dckt 257\_3].pdf

If Studio's representations in the status report are true, it looks like South is now onboard with the Studio plan. Consequently, Studio is asking for the receivership to end:

Studio informs the Court that it is doubtful – given the continuous egregious behavior of the Receiver – that Studio actually would be allowed to execute Studio's Separation Plan with the Receiver in place. The Receiver's behavior has only become more desperate and detrimental to the survival of South University and the Arts Institutes, as evidenced by the blatantly false assertions in his frivolous Emergency Motion of the Receiver for an Order Requiring Studio Enterprise Manager, LLC and John J. Altorelli to Show Cause Why They Should Not be Held in Contempt of this Court for their Violations of the Injunctions Contained in the Amended Order Appointing Receiver, filed today (Docket No. 252). Consequently – and especially given the support of both the Arts Institutes and South University for Studio's Separation Plan – Studio believes the best solution is for this Court to terminate the receivership at the earliest possible date, allowing Studio, the Arts Institutes, and South University to move forward with Studio's Separation Plan without the interference of the Receiver.

---

**From:** ECFdocuments@pacerpro.com [mailto:ECFdocuments@pacerpro.com]  
**Sent:** Thursday, April 11, 2019 4:05 PM  
**To:** Mangold, Donna; jonathan.e.jacobson@usdoj.gov; danielle.pham@usdoj.gov; jwe@weadvocate.net; mark@dottoreco.com; mkw@weadvocate.net  
**Subject:** New documents: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 257, N.D. Ohio 1:19-cv-00145-DAP)

## **[Digital Media Solutions, LLC v. South University of Ohio, LLC et al](#)**

**Docket entry number: 257**

**Third Status Report Studio Enterprise Manager, LLC's Third Status Report for the Extrinsication of the Ongoing Campuses of South University and The Arts Institutes Entities from the Dream Center**

Holdings, LLC's Shared IT Platform filed by Studio Enterprise Manager, LLC. (Attachments: # (1) Exhibit A - Receiver's Plan, # (2) Exhibit B - Studio's Plan, # (3) Exhibit C - Comparison of Studio and Receiver Plans)Related document(s)[229], [247], [206], [237].(Opincar, Scott) (Entered: 04/11/2019)

*Date entered: 2019-04-11*

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**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

DIGITAL MEDIA SOLUTIONS, LLC,	)	
	)	CASE NO. 1:19-CV-00145
Plaintiff,	)	
	)	
v.	)	JUDGE DAN AARON POLSTER
	)	
SOUTH UNIVERSITY OF OHIO, LLC, <i>et al.</i> ,	)	
	)	MAGISTRATE JUDGE THOMAS
Defendants.	)	M. PARKER
	)	

**STUDIO ENTERPRISE MANAGER, LLC’S THIRD STATUS REPORT FOR THE  
EXTRICATION OF THE ONGOING CAMPUSES OF SOUTH UNIVERSITY AND THE  
ARTS INSTITUTES ENTITIES FROM THE DREAM CENTER HOLDINGS, LLC’S  
SHARED IT PLATFORM**

Studio Enterprise Manager, LLC (“Studio”) hereby files this third status report in response to the Court’s Order dated March 28, 2019, Docket No. 213 (the “Order”) allowing “two weeks (or until 4:00 p.m. EDT on April 11, 2019) for the receiver, Studio and South University to negotiate any changes to the parties’ existing agreements that are needed to effect the separation of South University and the Art Institutes from the IT Platform not later than September 11, 2019” (the “Separation Deadline”).

Studio received a draft of Mark E. Dottore, the receiver’s (the “Receiver”) proposed plan for separation of the university systems (the “Receiver’s Separation Plan”) at 4:54 p.m. on April 10, 2019. The Receiver requested a call with Studio to discuss the Receiver’s Separation Plan, and the call was held at 1:00 p.m. today. Representatives of Dream Center South University, LLC (collectively with all of its subsidiaries, “South University”) and The Arts Institutes International, LLC (collectively with all of its subsidiaries, “the Arts Institutes”) also participated in the call.

Studio worked throughout the evening of April 10 and this morning to prepare a comparison of the Receiver's Separation Plan against Studio's Separation Plan (Docket No. 206). For ease of reference, a copy of the Receiver's Separation Plan is attached hereto as Exhibit A, a copy of Studio's Separation Plan is attached hereto as Exhibit B, and a copy of Studio's comparison of the two plans is attached hereto as Exhibit C (the "Comparison"). Studio provided a copy of the Comparison to the Receiver, South University, the Arts Institutes, Education Principle Foundation and certain lenders for South University (the "South Lenders") immediately prior to today's call.

South University and the Arts Institutes were offered the opportunity to posit questions to the Receiver and Studio about their respective plans, and Studio asked each of South University and the Arts Institutes to inform the group as to which plan they prefer. Both South University and the Arts Institutes informed the group that they each would like to move forward with Studio's Separation Plan.

Studio also informed the participants that the material differences between the Receiver's Separation Plan and Studio's Separation Plan are the following:

1. The Receiver is charging \$250,000 per month (\$1.5 million total) above the direct costs of the IT Platform.
2. The Receiver is allocating all costs other than employees on a 50/50 basis, which is contrary to the existing MSAs,<sup>1</sup> the TSLA and Studio's Separation Plan, and effectively shifts \$1.7 million of the costs to the Arts Institutes.

---

<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Reorganization Documents. The Reorganization Documents include a Framework Agreement (the "FWA"), a Master Bundled Services Agreement (the "BSA"), a Technology Licenses and Services Agreement (the "TSLA"), a Master Asset Purchase Agreement (the "APA"), a License Agreement (the "License"), and a Restrictive Covenant Agreement (the "Restrictive Covenant Agreement" and collectively with the FWA, BSA, TSLA, APA and License, the "Ai Transaction Documents"), a Master Services Agreement with each of South University, the Arts Institutes, and Argosy University (each as defined below) (collectively, the "MSAs"), a Transition Services and License

3. The Receiver is seeking \$250,000 per month (\$1.5 million total) to pay past due payables based on his “business judgement” even though the post-receivership payables are only \$629,635.00. It is not clear where the rest of the money will be spent.
4. The Receiver does not offer any deferral of any costs if either South University or the Arts Institutes are unable to pay such costs. Studio’s Separation Plan, the MSAs and TSLA do provide for deferrals.
5. The Receiver’s Separation Plan will require amendments to the MSAs and TSLA, and these amendments may require consent of the South Lenders. This consent has not been obtained as of this date.
6. The Receiver claims to be in negotiations to provide, but currently does not have, healthcare benefits for the Shared IT Employees at a roughly equivalent cost of the healthcare benefits that Studio already has available.

Other participants on the call were offered the opportunity to ask questions, make comments and indicate if they had any preference to one plan or the other. Mr. Michael Lau, representing the South Lenders, inquired as to how Studio’s Separation Plan would impact the receivership. The Receiver did not respond to Mr. Lau’s question. Studio responded that Studio’s Separation Plan would not require the receivership to continue, and Studio was confident that it could execute Studio’s Separation Plan with or without the receivership. It is unclear to Studio how the receivership could survive.

---

Agreement with DCEH (the “TSA”), the Amended and Restated Framework Agreement (the “Amended FWA”), an Equity and Asset Purchase Agreement (the “EAPA”), the Omnibus Amendment No. 2 to Credit Documents (the “Bridge Loan”), and an Interim Framework Agreement (as amended, the “IFWA” and collectively with each of the MSAs, the Bridge Loan, the TSA, the Ai Transaction Documents, and the other transaction documents contemplated by the IFWA, the “Reorganization Documents”).

Studio informs the Court that it is doubtful – given the continuous egregious behavior of the Receiver – that Studio actually would be allowed to execute Studio’s Separation Plan with the Receiver in place. The Receiver’s behavior has only become more desperate and detrimental to the survival of South University and the Arts Institutes, as evidenced by the blatantly false assertions in his frivolous Emergency Motion of the Receiver for an Order Requiring Studio Enterprise Manager, LLC and John J. Altorelli to Show Cause Why They Should Not be Held in Contempt of this Court for their Violations of the Injunctions Contained in the Amended Order Appointing Receiver, filed today (Docket No. 252). Consequently – and especially given the support of both the Arts Institutes and South University for Studio’s Separation Plan – Studio believes the best solution is for this Court to terminate the receivership at the earliest possible date, allowing Studio, the Arts Institutes, and South University to move forward with Studio’s Separation Plan without the interference of the Receiver.

Further, Studio received some additional comments and concerns from South University at 3:40 p.m., because South only had a short time to review the Comparison before today’s call. Studio believes it will be able to adequately satisfy the concerns raised by South University without having to change any terms of the Separation Plan, the MSAs or TSLA. Studio will promptly engage with South to do so.

Given that South University and the Arts Institutes have made their decision unequivocally clear, Studio will dispense with setting forth a narrative description of all of the reasons that the Receiver’s Separation Plan was defective and unduly burdensome to both university systems. Studio’s Comparison speaks for itself, and the Court will be able to make the appropriate judgment based on the facts.

*[Remainder of page intentionally blank; signature page follows]*

April 11, 2019

Respectfully submitted,

/s/ Scott N. Opincar

M. Colette Gibbons (0003095)

Scott N. Opincar (0064027)

Maria G. Carr (0092412)

Adam C. Smith (0087720)

MCDONALD HOPKINS LLC

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[sopincar@mcdonaldhopkins.com](mailto:sopincar@mcdonaldhopkins.com)

[mcarr@mcdonaldhopkins.com](mailto:mcarr@mcdonaldhopkins.com)

[asmith@mcdonaldhopkins.com](mailto:asmith@mcdonaldhopkins.com)

-and-

Dianne F. Coffino (admitted *pro hac vice*)

Martin E. Beeler (admitted *pro hac vice*)

Gabriella B. Zahn-Bielski (admitted *pro hac vice*)

COVINGTON & BURLING LLP

The New York Times Building

620 Eighth Avenue

New York, NY 10018

Telephone: (212) 841-1000

Facsimile: (212) 841-1010

Email: [dcoffino@cov.com](mailto:dcoffino@cov.com)

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[gzahnbielski@cov.com](mailto:g Zahnbielski@cov.com)

*Co-Counsel for Studio Enterprise Manager, LLC*



**CERTIFICATE OF SERVICE**

I hereby certify that on April 11, 2019, a copy of the foregoing Studio Enterprise Manager, LLC's Third Status Report for the Extrication of the Ongoing Campuses of South University and The Arts Institutes Entities from the Dream Center Holdings, LLC's Shared IT Platform was filed electronically. Notice of this filing will be sent to all parties by the Court's electronic filing system. Parties may access this filing through the Court's system.

/s/ Scott N. Opincar  
Scott N. Opincar (0064027)

# **EXHIBIT A**

Mark E. Dottore, Receiver  
 United States District Court  
 Northern District of Ohio Eastern Division  
 Receiver's Shared Cost Transition Plan for South University and The Arts Institutes  
 For the six month period April, 2019 through September, 2019  
 Case No. 1:19cv145  
 4/11/2019

	March 29 Pay	April 12 Pay	April 26 Pay	May 10 Pay	May 24 Pay	June 7 Pay	(9 payrolls) June 21 pay thru Oct 11 pay
<b>Headcount</b>							
<u>Department</u>							
Accounting	6	5	0	0	0	0	0
Centralized Financial Aid	26	6	0	0	0	0	0
HR/Payroll	6	5	0	0	0	0	0
IT	64	55	55	55	55	55	55
Risk & Compliance	10	9	9	9	9	9	9
Student Accounting	8	7	0	0	0	0	0
Student Financial Services	5	5	4	4	4	4	4
Other	5	1	0	0	0	0	0
<b>Total</b>	<b>130</b>	<b>93</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>

	March 29 Pay	April 12 Pay	April 26 Pay	May 10 Pay	May 24 Pay	June 7 Pay	(9 payrolls) June 21 pay thru Oct 11 pay
<b>Payroll, Taxes &amp; Benefits</b>							
<u>Department</u>							
Accounting	\$27,109	\$21,120	\$0	\$0	\$0	\$0	\$0
Centralized Financial Aid	\$58,888	\$19,434	\$0	\$0	\$0	\$0	\$0
HR/Payroll	\$19,911	\$18,065	\$0	\$0	\$0	\$0	\$0
IT	\$311,885	\$267,655	\$267,655	\$267,655	\$267,655	\$267,655	\$267,655
Risk & Compliance	\$34,746	\$31,255	\$31,255	\$31,255	\$31,255	\$31,255	\$31,255
Student Accounting	\$19,781	\$18,056	\$0	\$0	\$0	\$0	\$0
Student Financial Services	\$25,900	\$25,900	\$21,045	\$21,045	\$21,045	\$21,045	\$21,045
Other	\$33,324	\$4,732	\$0	\$0	\$0	\$0	\$0
<b>Total Payroll, Taxes &amp; Benefits<sup>1</sup></b>	<b>\$531,544</b>	<b>\$406,218</b>	<b>\$319,955</b>	<b>\$319,955</b>	<b>\$319,955</b>	<b>\$319,955</b>	<b>\$319,955</b>

<sup>1</sup> South University and the Art Institutes have agreed to pay the Receiver using the March 15 payroll allocation of 67.6% South and 32.4% Ai for the duration of the transition

<sup>2</sup> Receiver is currently applying for healthcare coverage and rates for shared employees. Payroll taxes 12.15%, benefits assumed to be 16%

<b>IT Critical Vendor Payments</b>	<b>March<sup>4</sup></b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>September</b>
Facility	\$353,314	\$174,553	\$174,553	\$174,553	\$174,553	\$174,553	\$174,553
Infrastructure	\$0	\$98,667	\$98,667	\$98,667	\$98,667	\$98,667	\$98,667
Telecom	\$0	\$258,000	\$258,000	\$258,000	\$258,000	\$258,000	\$258,000
IT vendor accounts payable	\$0	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Professional Fees		\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
<b>Total IT Critical Vendors<sub>5</sub></b>	<b>\$353,314</b>	<b>\$1,031,220</b>	<b>\$1,031,220</b>	<b>\$1,031,220</b>	<b>\$1,031,220</b>	<b>\$1,031,220</b>	<b>\$1,031,220</b>

<sup>3</sup> South University and The Art Institutes should agree to a 50/50 split of critical vendor payments and professional fees.

<sup>4</sup> Receiver has paid facility vendors \$353,314 for February and March. IT vendor accounts payable for February and March are unpaid. Receiver has not been reimbursed by South University or The Art Institutes for any February or March facility or critical vendor expenses.

<b>Critical Software License Renewals<sub>5</sub></b>	<b>Total</b>
Payment date TBD	\$1,679,691

<sup>5</sup> South University and the Art Institutes should negotiate separate software renewal licenses and software maintenance contracts

Mark E. Dottore, Receiver  
 Receiver's Shared Cost Transition Plan for South University and The Arts Institutes  
 Case No. 1:19cv145

**Appendix 1: Critical Shared IT, Compliance & Student Financial Services Employees  
 4/11/2019**

<u>Department</u>	<u>Employee Title</u>
IT Shared Services	CIO
IT Shared Services	Software Supervisor
IT Shared Services	Software Engineer - V
IT Shared Services	Systems Analyst -III
IT Shared Services	Software Engineer - III
IT Shared Services	Software Director
IT Shared Services	IT Analytics Director
IT Shared Services	IT Security Analyst - III
IT Shared Services	Software Director
IT Shared Services	Software Director
IT Shared Services	Systems Analyst -IV
IT Shared Services	Software Engineer - IV
IT Shared Services	Software Engineer - V
IT Shared Services	Web Manager
IT Shared Services	Web Developer - III
IT Shared Services	CRM Development - VP
IT Shared Services	Business Relationship Mgr - IV
IT Shared Services	Business Architect - IV
IT Shared Services	Business Analyst - IV
IT Shared Services	Student Application Specialist
IT Shared Services	Software Manager
IT Shared Services	Software Engineer - III
IT Shared Services	Business Analyst - III
IT Shared Services	Software Supervisor
IT Shared Services	Software Manager
IT Shared Services	System Engineer - IV
IT Shared Services	Systems Administration Mgr
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - I
IT Shared Services	Systems Administration Supvr
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III
IT Shared Services	IT Data Management - Manager
IT Shared Services	Network Manager
IT Shared Services	Network Analyst - III
IT Shared Services	Network Engineer - III
IT Shared Services	Telecom Manager
IT Shared Services	Telecom Engineer - II
IT Shared Services	Software Director
IT Shared Services	Software Supervisor
IT Shared Services	Systems Analyst -III
IT Shared Services	Systems Analyst -IV
IT Shared Services	Facilities Coord - II
IT Shared Services	IT Data Center Coord - II
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - Supervisor
IT Shared Services	Support Analyst - III
IT Shared Services	Support Analyst - III
IT Shared Services	IT Technology - Regional Spec
IT Shared Services	Systems Analyst -III
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - I
Risk & Compliance	Compliance Specialist I
Risk & Compliance	Compliance Specialist I
Risk & Compliance	Compliance Specialist III
Risk & Compliance	Reporting Analyst Sr
Risk & Compliance	Financial Analyst Sr (IV)
Risk & Compliance	Int'l Reg Affs - Analyst III
Risk & Compliance	Compliance Supervisor
Risk & Compliance	Compliance Manager
Risk & Compliance	Internal Ctrl & Compliance VP
Student Financial Services	Default Prevention Director
Student Financial Services	VP Student Finance & Compliance
Student Financial Services	Financial Aid Processing Mngr
Student Financial Services	Business Analyst - II

Total IT Employees	55
Total Risk & Compliance Employees	9
Student Financial Services	4
<b>Total IT &amp; Compliance Employees</b>	<b>68</b>

Mark E. Dottore, Receiver  
Receiver's Shared Cost Transition Plan for South University and The Arts Institutes  
Case No. 1:19cv145

Appendix 2: Critical IT Vendors - Estimated Monthly Costs  
4/11/2019

Vendors	Facility	Infrastructure	Telecom	Total
CALERO SOFTWARE LLC	-	-	250,000	250,000
CAMPUS MANAGEMENT CORP	-	-	-	-
SAMPSON MORRIS GROUP INC	62,912	-	-	62,912
IRON MOUNTAIN	-	55,798	-	55,798
Duquesne Light	31,820	-	-	31,820
SUNGARD AVAILABILITY SERVICES	-	17,794	-	17,794
UNIFIED POWER ACQ CORP	14,695	-	-	14,695
LIGHTHOUSE ELECTRICAL CO INC.	14,669	-	-	14,669
CURVATURE INC	-	12,383	-	12,383
MASTECH INC	8,159	-	-	8,159
AMAZON WEB SERVICES LLC (1951)	-	-	8,000	8,000
EATON CORPORATION	7,114	-	-	7,114
HUCKESTEIN MECHANICAL SERVICES	5,102	-	-	5,102
BAILS & ASSOCIATES LLC	-	4,978	-	4,978
JOHNSON CONTROLS FIRE	4,599	-	-	4,599
INTERTECH SECURITY LLC	3,172	-	-	3,172
KINGSMEN LLC	2,800	-	-	2,800
XTIVIA, INC.	2,670	-	-	2,670
Curvative SMS-Cisco	-	2,614	-	2,614
DigiCert (Thawte Inc- Web Server Units)	-	2,586	-	2,586
Mastech - Andy S.	2,306	-	-	2,306
Sirius - HPE Foundation Care 24X7	2,190	-	-	2,190
AUTOMATED LOGIC CONTRACTING	2,027	-	-	2,027
Abhishek Deodhar- MDI	-	1,934	-	1,934
Simplex Grinnell	1,460	-	-	1,460
General Repairs	1,273	-	-	1,273
Siteimprove(Replaces Worldspace)	1,196	-	-	1,196
ASCO POWER SERVICES INC	1,000	-	-	1,000
ASCO	937	-	-	937
Axway (formerly Vordel)	635	-	-	635
CUMMINS BRIDGEWAY LLC	604	-	-	604
HP HW Maintenance	-	579	-	579
Pitt Chemical	525	-	-	525
MILLER MATS	360	-	-	360
STABB Brother	313	-	-	313
Automated Logic (Maintenance)	285	-	-	285
General Supplies	263	-	-	263
Crossbrowsertesting.com	250	-	-	250
Network Solutions	233	-	-	233
WASTE MANAGEMENT	186	-	-	186
BERGER TRANSFER & STORAGE	168	-	-	168
ABC FIRE EXTINGUISHER CO, INC.	115	-	-	115
ABC Medical Supply	107	-	-	107
AVI Services (Reclass to 70035-0)	79	-	-	79
ASD - Service Call	77	-	-	77
Educause-Domain Renewal	70	-	-	70
Manion Plumbing	63	-	-	63
ARIN Registry	38	-	-	38
Minor Operating Permit	33	-	-	33
ENTRUST	19	-	-	19
Vimeo	17	-	-	17
Common Wealth	10	-	-	10
Plans Examiners (Data Center Fire Inspection)	4	-	-	4
<b>Total</b>	<b>174,553</b>	<b>98,667</b>	<b>258,000</b>	<b>531,220</b>

Mark E. Dottore, Receiver

Receiver's Shared Cost Transition Plan for South University and The Arts Institutes

Case No. 1:19cv145

**Appendix 3: Critical Software License Renewals**

**4/11/2019**

<b>Vendor</b>	<b>Expected Contract</b>
MICROSOFT CORPORATION	475,175
DOCUSIGN INC (4684)	100,000
CITRIX SYSTEMS, INC	141,953
ADVENT COMMUNICATIONS INC (6994)	350,000
ADOBE	Unknown
INFORMATICA CORPORATION (1789)	167,236
Palo Alto	150,000
PROOFPOINT INC (1191)	150,000
Fulcrum	64,000
AVID TECHNOLOGY INC	51,328
ABLETON AG (6661)	15,000
NetApp	15,000
<b>Total</b>	<b>1,679,691</b>

\* South University and The Art Institutes to work to obtain separate software license renewals and annual maintenance contracts. Funding to be paid by South and Art Institutes. There are additional license enewals that AI and/or South may need.

Mark E. Dottore, Receiver  
United States District Court  
Northern District of Ohio Eastern Division  
Receiver's Shared Cost Transition Plan for South University and The Arts Institutes  
Amounts Owed Immediately  
Case No. 1:19cv145  
4/11/2019

	Art Institutes	South University
4th Quarter State and Federal Unemployment Taxes 2018	\$ 21,863	\$ 34,718
1st Quarter State and Federal Unemployment Taxes 2019 - estimate	204,000	311,000
February and March 2019 Facilities expenses paid by Receiver	176,657	176,657
Critical Vendors for month of April 2019	<u>515,610</u>	<u>515,610</u>
<b>Total Due Immediately</b>	918,130	1,037,985
<b>Plus: Shared Payroll Costs Bi weekly</b>		

# **EXHIBIT A**



# STUDIO SEPARATION PLAN

MARCH 26, 2019

# Executive Summary

- Studio's proposed plan (the "Separation Plan") has three primary components:
  - I. Transition of DCEH employees to South University, The Arts Institutes, and Studio
  - II. Subleasing the Pittsburgh Data Center to Studio
  - III. Maintenance and transition of Shared IT systems
  
- The Separation Plan provides a straight-forward path toward:
  - I. Reducing costs and operational inefficiencies in the near-term
  - II. Providing a credit-worthy counterparty for the landlord, employees, and vendors
  - III. Deferring payment of Non-Core Expenses to Studio to the extent South University and The Art Institutes are unable to pay
  - IV. Best ensuring the survival and growth of The Art Institutes and South University

# Executive Summary (cont.)

	March 21 - April 6	April 7 - April 30	May 1 - May 31	June 1 - June 30	July 1 - July 31
<b>Headcount</b>					
Art Institute employees currently at DCEH <sup>1</sup>	923	-	-	-	-
South University employees currently at DCEH <sup>1</sup>	1,692	-	-	-	-
Shared DCEH Employees <sup>2</sup>	243	-	-	-	-
Shared IT Employees <sup>3</sup>	-	56	56	56	-
Shared Compliance Employees <sup>4</sup>	-	9	9	9	9
<b>Total Headcount</b>	<b>2,858</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>9</b>
<b>Campus Personnel Costs at DCEH</b>					
Art Institute employees currently at DCEH <sup>1</sup>	\$2,035,647	-	-	-	-
South University employees currently at DCEH <sup>1</sup>	\$5,115,570	-	-	-	-
<b>Total Campus Personnel Costs</b>	<b>\$7,151,217</b>	-	-	-	-
<b>Shared Personnel Costs</b>					
Shared DCEH Employees <sup>2</sup>	\$1,125,586	-	-	-	-
Shared IT Employees <sup>3</sup>	-	\$581,703	\$581,703	\$581,703	-
Shared Compliance Employees <sup>4</sup>	-	\$63,476	\$63,476	\$63,476	\$63,476
<b>Total Shared Service Personnel Costs</b>	<b>\$1,125,586</b>	<b>\$645,179</b>	<b>\$645,179</b>	<b>\$645,179</b>	<b>\$63,476</b>
<b>Contracts &amp; Shared Services<sup>5</sup></b>					
Facility Lease	\$62,912	\$62,912	\$62,912	\$62,912	-
Maintenance & Utilities <sup>6</sup>	\$111,624	\$111,624	\$111,624	\$111,624	-
Shared IT Contracts	\$98,684	\$98,684	\$98,684	\$98,684	-
Telecommunications	\$258,000	\$258,000	\$258,000	\$258,000	-
Studio Average Monthly Overhead	\$1,000,000	\$600,923	\$600,923	\$600,923	\$600,923
<b>Total Shared Service Expense</b>	<b>\$1,531,220</b>	<b>\$1,132,143</b>	<b>\$1,132,143</b>	<b>\$1,132,143</b>	<b>\$600,923</b>
<b>Total Monthly Transitional Expense</b>	<b>\$2,656,806</b>	<b>\$1,777,322</b>	<b>\$1,777,322</b>	<b>\$1,777,322</b>	<b>\$664,399</b>

## Footnotes

<sup>1</sup> - Represents the 923 Art Institute and 1,692 South employees that will be paid through DCEH until the schools finalize payroll independence on April 7th

<sup>2</sup> - Represents the 243 employees currently at DCEH relating to services shared by The Art Institute and South University

<sup>3</sup> - Represents the 56 IT employees identified by Studio as critical for providing IT services to The Art Institute and South University

<sup>4</sup> - Represents the 9 Compliance employees identified by Studio as critical for providing services to The Art Institute and South University

<sup>5</sup> - These expenses are included in the existing TSA service fee, but the Receiver has not been paying the vendors current

<sup>6</sup> - Expense is inclusive of the utilities, ongoing maintenance, power, and other miscellaneous expenses associated with the Pittsburgh data center location



# I. Employee Transition

- All employees required to operate South University and The Art Institutes are currently employed by DCEH
- South University and The Art Institutes plan to independently hire those DCEH employees necessary for their schools by April 7<sup>th</sup>
  - 1,692 employees for South University (monthly payroll - \$6.0mm)
  - 923 employees for The Art Institutes (monthly payroll - \$2.4mm)
- There are approximately 243 DCEH employees shared by South University and The Art Institutes (the “Shared Employees”) (monthly payroll - \$1.3mm)
- Studio intends to hire 65 critical Shared Employees on April 7, 2019 (monthly payroll - \$645k)
- Following that date, there will be no further payroll related to South University, the Art Institute, or Shared IT Services running through the Receiver

# I. Employee Transition (cont.)

Department	Employee Title
IT Shared Services	CIO
IT Shared Services	Software Supervisor
IT Shared Services	Software Engineer - V
IT Shared Services	Systems Analyst -III
IT Shared Services	Software Engineer - III
IT Shared Services	Software Director
IT Shared Services	IT Analytics Director
IT Shared Services	IT Security Analyst - III
IT Shared Services	Software Director
IT Shared Services	Software Director
IT Shared Services	Systems Analyst -IV
IT Shared Services	Software Engineer - IV
IT Shared Services	Software Engineer - V
IT Shared Services	Web Manager
IT Shared Services	Web Developer - III
IT Shared Services	CRM Development - VP
IT Shared Services	Business Relationship Mgr - IV
IT Shared Services	Business Architect - IV
IT Shared Services	Business Analyst - IV
IT Shared Services	Student Application Specialist
IT Shared Services	Software Manager
IT Shared Services	Software Engineer - III
IT Shared Services	Business Analyst - III
IT Shared Services	Software Supervisor
IT Shared Services	Software Manager
IT Shared Services	System Engineer - IV
IT Shared Services	Systems Administration Mgr
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - I
IT Shared Services	Systems Administration Supvr
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III
IT Shared Services	Systems Administrator - III

Department	Employee Title
IT Shared Services	IT Data Management - Manager
IT Shared Services	Network Manager
IT Shared Services	Network Analyst - III
IT Shared Services	Network Engineer - III
IT Shared Services	Telecom Manager
IT Shared Services	Telecom Engineer - II
IT Shared Services	Software Director
IT Shared Services	Software Supervisor
IT Shared Services	Systems Analyst -III
IT Shared Services	Systems Analyst -IV
IT Shared Services	Facilities Coord - II
IT Shared Services	IT Data Center Coord - II
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - Supervisor
IT Shared Services	Support Analyst - III
IT Shared Services	Support Analyst - III
IT Shared Services	IT Technology - Regional Spec
IT Shared Services	Systems Analyst -III
IT Shared Services	Support Analyst - I
IT Shared Services	Support Analyst - I
<b>Shared IT Employees</b>	<b>56</b>
Risk & Compliance	Compliance Specialist I
Risk & Compliance	Compliance Specialist I
Risk & Compliance	Compliance Specialist III
Risk & Compliance	Reporting Analyst Sr
Risk & Compliance	Financial Analyst Sr (IV)
Risk & Compliance	Int'l Reg Affs - Analyst III
Risk & Compliance	Compliance Supervisor
Risk & Compliance	Compliance Manager
Risk & Compliance	Internal Ctrl & Compliance VP
<b>Shared Compliance Employees</b>	<b>9</b>
<b>Employees Transitioning to Studio</b>	<b>65</b>

## II. Pittsburgh Data Center Lease, Utilities, and Maintenance

- On or about April 1<sup>st</sup>, Studio will sublease from DCEH the existing lease for the Pittsburgh Data Center
- Studio will assume the rent, utilities and maintenance obligations of DCEH
- The Receiver will be relieved of the rent, utility and maintenance obligations at the Pittsburgh Data Center, which are approximately \$174,536 monthly (\$62,912 of which is related to the lease's base rent and \$111,624 to utilities and maintenance)
- Studio has identified 1 critical facility lease contract and 41 critical maintenance & utility contracts

## II. Pittsburgh Data Center Lease, Utilities, and Maintenance

Vendor	Service Classification	Estimated Monthly Cost	Pre-Receivership Payables	Post-Receivership Payables
SAMPSON MORRIS GROUP INC	Facility Lease	\$62,912	\$125,824	\$125,824
Duquesne Light	Maintenance & Utilities	\$31,820	-	-
UNIFIED POWER ACQ CORP	Maintenance & Utilities	\$14,695	\$14,695	-
LIGHTHOUSE ELECTRICAL CO INC.	Maintenance & Utilities	\$14,669	\$53,928	\$43,500
MASTECH INC	Maintenance & Utilities	\$8,159	\$9,324	\$18,333
EATON CORPORATION	Maintenance & Utilities	\$7,114	\$7,114	-
HUCKESTEIN MECHANICAL SERVICES	Maintenance & Utilities	\$5,102	\$7,275	-
JOHNSON CONTROLS FIRE	Maintenance & Utilities	\$4,599	\$25,816	\$2,494
INTERTECH SECURITY LLC	Maintenance & Utilities	\$3,172	\$20,857	\$234
KINGSMEN LLC	Maintenance & Utilities	\$2,800	\$2,800	-
XTIVIA, INC.	Maintenance & Utilities	\$2,670	\$8,010	\$2,670
Mastech - Andy S.	Maintenance & Utilities	\$2,306	-	-
Sirius - HPE Foundation Care 24X7	Maintenance & Utilities	\$2,190	-	-
AUTOMATED LOGIC CONTRACTING	Maintenance & Utilities	\$2,027	\$6,022	-
Simplex Grinnell	Maintenance & Utilities	\$1,460	-	-
General Repairs	Maintenance & Utilities	\$1,273	-	-
Siteimprove(Replaces Worldspace)	Maintenance & Utilities	\$1,196	-	-
ASCO POWER SERVICES INC	Maintenance & Utilities	\$1,000	\$11,585	-
ASCO	Maintenance & Utilities	\$937	-	-
Axway (formerly Vordel)	Maintenance & Utilities	\$635	-	-
CUMMINS BRIDGEWAY LLC	Maintenance & Utilities	\$604	\$1,628	-
Pitt Chemical	Maintenance & Utilities	\$525	-	-
MILLER MATS	Maintenance & Utilities	\$360	\$1,081	\$782
STABB Brother	Maintenance & Utilities	\$313	-	-
Automated Logic (Maintenance)	Maintenance & Utilities	\$285	-	-
General Supplies	Maintenance & Utilities	\$263	-	-
Crossbrowseresting.com	Maintenance & Utilities	\$250	-	-
Network Solutions	Maintenance & Utilities	\$233	-	-
WASTE MANAGEMENT	Maintenance & Utilities	\$186	(\$850)	\$2,090
BERGER TRANSFER & STORAGE	Maintenance & Utilities	\$168	\$186	-
ABC FIRE EXTINGUISHER CO, INC.	Maintenance & Utilities	\$115	\$642	\$208
ABC Medical Supply	Maintenance & Utilities	\$107	-	-
AVI Services (Reclass to 70035-0)	Maintenance & Utilities	\$79	-	-
ASD - Service Call	Maintenance & Utilities	\$77	-	-
Educause-Domain Renewal	Maintenance & Utilities	\$70	-	-
Manion Plumbing	Maintenance & Utilities	\$63	-	-
ARIN Registry	Maintenance & Utilities	\$38	-	-
Minor Operating Permit	Maintenance & Utilities	\$33	-	-
ENTRUST	Maintenance & Utilities	\$19	-	-
Common Wealth	Maintenance & Utilities	\$10	-	-
Plans Examiners	Maintenance & Utilities	\$4	-	-
<b>Total Facility Lease</b>	<b>1 contract</b>	<b>\$62,912</b>	<b>\$125,824</b>	<b>\$125,824</b>
<b>Total Maintenance &amp; Other Contracts</b>	<b>41 contracts</b>	<b>\$111,624</b>	<b>\$170,113</b>	<b>\$70,310</b>
<b>Total</b>	<b>42 contracts</b>	<b>\$174,536</b>	<b>\$295,937</b>	<b>\$196,134</b>

### III. Shared IT Contracts

- Provided in the following slides is a list of critical agreements identified by Studio as required to provide the Shared IT services for South University and The Art Institutes
- Studio will assume the payment of the monthly fees, including any required past due payables (pending negotiations with vendors)
- In total, Studio has identified 69 critical IT contracts: 11 related to telecommunications (inclusive of 9 telecommunication vendors serviced by a single servicer – Calero) and 58 related to general IT contracts
- Studio has calculated approximately \$2.14mm of past due payables generated Pre Receivership and \$629k Post Receivership



### III. Shared IT Contracts

Vendor	Service Classification	Estimated Monthly Cost	Pre-Receivership Payables	Post-Receivership Payables
CALERO SOFTWARE LLC	Telecommunications	\$250,000	\$1,491,134	\$408,793
AT&T (Serviced by Calero)	Telecommunications	-	-	-
CenturyLink (Serviced by Calero)	Telecommunications	-	-	-
Granite (Serviced by Calero)	Telecommunications	-	-	-
Dish Network (Serviced by Calero)	Telecommunications	-	-	-
Bright House Networks (Serviced by Calero)	Telecommunications	-	-	-
Frontier (Serviced by Calero)	Telecommunications	-	-	-
Verizon (Serviced by Calero)	Telecommunications	-	-	-
Tim Warner (Serviced by Calero)	Telecommunications	-	-	-
Segway Communications (Serviced by Calero)	Telecommunications	-	-	-
AMAZON WEB SERVICES LLC (1951)	Telecommunications	\$8,000	-	-
IRON MOUNTAIN	IT Contracts	\$55,798	\$206,636	\$521
SUNGARD AVAILABILITY SERVICES	IT Contracts	\$17,794	\$53,383	\$24,186
CURVATURE INC	IT Contracts	\$12,383	\$74,315	-
BAILS & ASSOCIATES LLC	IT Contracts	\$4,978	\$21,600	-
Curvative SMS-Cisco	IT Contracts	\$2,614	-	-
DigiCert (Thawte Inc- Web Server Units)	IT Contracts	\$2,586	-	-
Abhishek Deodhar	IT Contracts	\$1,934	-	-
HP HW Maintenance	IT Contracts	\$579	-	-
Vimeo	IT Contracts	\$17	-	-
INGENIUS SOFTWARE INC	IT Contracts	-	-	-
EDMC-PERFORMLINE INC	IT Contracts	-	-	-
INFOR US INC	IT Contracts	-	-	-
EX LIBRIS (USA), INC.	IT Contracts	-	-	-
EDMC-SUNGARD AVAILABILITY SERVICES	IT Contracts	-	-	-
FORSYTHE SOLUTIONS GROUP INC.	IT Contracts	-	-	-
ELLUCIAN SUPPORT INC	IT Contracts	-	-	-
SERVICENOW INC	IT Contracts	-	-	-
ALLIANCE GLOBAL SERVICES	IT Contracts	-	-	-
LogMeIn (NONLAWSON)	IT Contracts	-	-	-
TK20 INC	IT Contracts	-	-	-
GRADLEADERS INC	IT Contracts	-	-	-
OPTIV SECURITY INC	IT Contracts	-	-	-
HALOGEN SOFTWARE INC	IT Contracts	-	-	-
TOON BOOM TECHNOLOGIES INC.	IT Contracts	-	-	-

# III. Shared IT Contracts

Vendor	Service Classification	Estimated Monthly Cost	Pre-Receivership Payables	Post-Receivership Payables
RAPID7 LLC	IT Contracts	-	-	-
SIMPLEXGRINNELL LP	IT Contracts	-	-	-
DATABASE WORKS INC	IT Contracts	-	-	-
QSR AMERICANadaS	IT Contracts	-	-	-
SUPPORT WAREHOUSE LTD	IT Contracts	-	-	-
CONCORD USA INC	IT Contracts	-	-	-
MICRO CLEAN SERVICES INC	IT Contracts	-	-	-
SITEIMPROVE INC	IT Contracts	-	-	-
BUSINESS SOFTWARE INC	IT Contracts	-	-	-
SMARTYSTREETS LLC	IT Contracts	-	-	-
AEC GROUP INC	IT Contracts	-	-	-
Service Express (NONLAWSON)	IT Contracts	-	-	-
AXWAY INC (2496)	IT Contracts	-	-	-
MINITAB INC	IT Contracts	-	-	-
IZOTOPE	IT Contracts	-	-	-
TELERIK INC	IT Contracts	-	-	-
DLT SOLUTIONS LLC	IT Contracts	-	-	-
Kingswaysoft (NONLAWSON)	IT Contracts	-	-	-
LUXION INC	IT Contracts	-	-	-
MICRO FOCUS	IT Contracts	-	-	-
ILLINET/OCLC SERVICES	IT Contracts	-	-	-
DQE COMMUNICATIONS LLC	IT Contracts	-	-	-
EDMC-INDIANA UNIVERITY REN-ISAC	IT Contracts	-	-	-
EDMC-BRIGHT HOUSE NETWORKS	IT Contracts	-	-	-
MEC SOFT CORPORATION	IT Contracts	-	-	-
VIMEO (NON LAWSON)	IT Contracts	-	-	-
ARIN Registry (NONLAWSON)	IT Contracts	-	-	-
EDMC-COX COMMUNICATIONS	IT Contracts	-	-	-
ADVENT COMMUNICATIONS INC	IT Contracts	-	-	-
Voyager (NONLAWSON)	IT Contracts	-	-	-
MCCREADIE GROUP	IT Contracts	-	-	-
Sterling (NONLAWSON)	IT Contracts	-	-	-
EDMC-ACADEMIC SOFTWARE PLUS (442532)	IT Contracts	-	-	-
CORE HIGHER EDUCATION	IT Contracts	-	-	-
HEWLETT PACKARD ENTERPRISE	IT Contracts	-	-	-
<b>Shared Telecomm/Data Services</b>	<b>11 contracts</b>	<b>\$258,000</b>	<b>\$1,491,134</b>	<b>\$408,793</b>
<b>Total IT Contracts</b>	<b>58 contracts</b>	<b>\$98,684</b>	<b>\$355,934</b>	<b>\$24,707</b>
<b>Total</b>	<b>69 contracts</b>	<b>\$356,684</b>	<b>\$1,847,069</b>	<b>\$433,500</b>

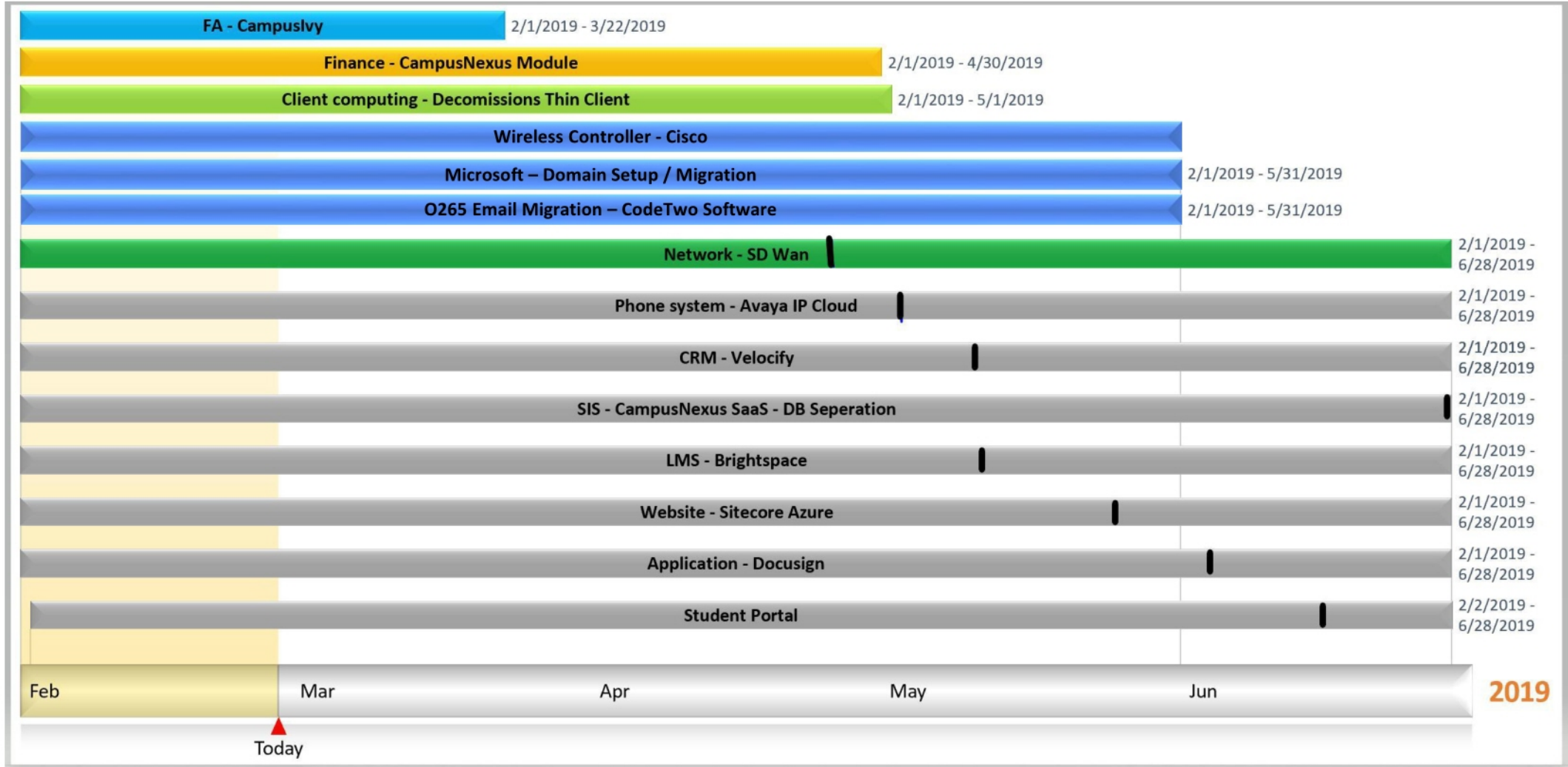
### III. Shared IT Contracts (cont.)

- Adjacent is the list of critical IT software licenses that are coming up for renewal
- Studio will attempt to negotiate with applicable vendors to:
  - Assign, modify and/or enter into new separate agreements for South University and The Art Institutes
  - Eliminate, reduce and/or defer payment of outstanding payables with respect to the Shared IT Contracts

#### *Critical Software License Renewals*

<b>Vendor</b>	<b>License Fee to be Paid</b>
MICROSOFT CORPORATION	\$475,175
D2L LTD	\$257,000
DOCUSIGN INC (4684)	\$100,000
CITRIX SYSTEMS, INC	\$141,953
ADVENT COMMUNICATIONS INC (6994)	\$350,000
Symantec (NONLAWSON)	\$250,000
INFORMATICA CORPORATION (1789)	\$167,236
Palo Alto	\$150,000
PROOFPOINT INC (1191)	\$150,000
Fulcrum	\$64,000
AVID TECHNOLOGY INC	\$51,328
ABLETON AG (6661)	\$15,000
NetApp	\$15,000
<b>Total</b>	<b>\$2,186,691</b>

# Appendix A: IT Transition Plan



# EXHIBIT C

**IT Separation Plan - Summary Output***Date of Analysis: April 11, 2019***Summary Output**

<b>Plan</b>	<b>Total Monthly Cost</b>	<b>Monthly Cost - South</b>	<b>Monthly Cost - AI</b>
Studio Enterprise Plan	\$1,735,160	\$1,172,968	\$562,192
Receiver Plan	\$2,272,053	\$1,248,651	\$1,023,402
<b>Monthly Savings under Studio Plan</b>	<b>\$536,893</b>	<b>\$75,682</b>	<b>\$461,210</b>

<b>Plan</b>	<b>Six Months Total Cost</b>	<b>Total Cost - South</b>	<b>Total Cost - AI</b>
Studio Enterprise Plan	\$10,410,961	\$7,037,810	\$3,373,151
Receiver Plan	\$13,632,317	\$7,491,903	\$6,140,414
<b>Total Savings under Studio Plan</b>	<b>\$3,221,356</b>	<b>\$454,094</b>	<b>\$2,767,262</b>

**IT Separation Plan Cost Comparison**

Date of Analysis: April 11, 2019

**Studio Enterprise's Separation Plan**

Service	Notes	Total Monthly Cost	Monthly Cost - South	Monthly Cost - AI
<i>Shared Personnel Costs</i>				
IT Shared Services Employees	45 Employees	\$440,540	\$297,805	\$142,735
Risk & Compliance Shared Employees	8 Employees	\$57,538	\$38,896	\$18,642
Student Financial Services Shared Employees	0 Employees	-	-	-
<b>Total Shared Personnel Costs</b>	<b>53 Employees</b>	<b>\$498,078</b>	<b>\$336,701</b>	<b>\$161,377</b>
<i>Contracts &amp; Shared Services</i>				
Facility Expense	41 Contracts	\$174,536	\$117,986	\$56,550
IT Infrastructure	9 Contracts	\$98,684	\$66,710	\$31,974
Telecommunications	2 Contracts	\$258,000	\$174,408	\$83,592
Studio Average Monthly Overhead	Per the latest Court filing	\$600,923	\$406,224	\$194,699
IT Vendor Accounts Payable <sup>1</sup>	N/A	\$104,939	\$70,939	\$34,000
Receiver's Fees	N/A	-	-	-
<b>Total Contracts &amp; Shared Services</b>		<b>\$1,237,082</b>	<b>\$836,267</b>	<b>\$400,815</b>
<b>Total Monthly Transitional Expense</b>		<b>\$1,735,160</b>	<b>\$1,172,968</b>	<b>\$562,192</b>
<b>Total Cost for Six Months</b>		<b>\$10,410,961</b>	<b>\$7,037,810</b>	<b>\$3,373,151</b>

**Receiver's Separation Plan**

Service	Notes	Total Monthly Cost	Monthly Cost - South	Monthly Cost - AI
<i>Shared Personnel Costs</i> <sup>2</sup>				
IT Shared Services Employees <sup>3</sup>	55 Employees	\$535,311	\$361,870	\$173,441
Risk & Compliance Shared Employees	9 Employees	\$62,510	\$42,257	\$20,253
Student Financial Services Shared Employees	4 Employees	\$42,089	\$28,452	\$13,637
<b>Total Shared Personnel Costs</b>	<b>68 Employees</b>	<b>\$639,910</b>	<b>\$432,579</b>	<b>\$207,331</b>
<i>Contracts &amp; Shared Services</i>				
Facility Expense	42 Contracts	\$174,553	\$87,276	\$87,276
IT Infrastructure <sup>4</sup>	8 Contracts	\$98,667	\$49,334	\$49,334
Telecommunications	2 Contracts	\$258,000	\$129,000	\$129,000
Studio Average Monthly Overhead	Per the latest Court filing	\$600,923	\$406,224	\$194,699
IT Vendor Accounts Payable <sup>5</sup>	\$250k monthly, in advance	\$250,000	\$125,000	\$125,000
Receiver's Fees	\$250k monthly, in advance	\$250,000	\$125,000	\$125,000
<b>Total Contracts &amp; Shared Services</b>		<b>\$1,632,143</b>	<b>\$816,072</b>	<b>\$816,072</b>
<b>Total Monthly Transitional Expense</b>		<b>\$2,272,053</b>	<b>\$1,248,651</b>	<b>\$1,023,402</b>
<b>Total Cost for Six Months</b>		<b>\$13,632,317</b>	<b>\$7,491,903</b>	<b>\$6,140,414</b>

**Footnotes**

1 - The Studio Separation Plan contemplates negotiating new vendor agreements for each of Ai and South University. Studio only intends to pay the post-receivership payables of \$629,635. As the timing of those payments is unknown as this point, the total cost is allocated over the 6-month duration of the Separation.

2 - The Receiver's payroll tax and benefits incorporates hypothetical healthcare coverage rates that are under negotiation so it is difficult to determine whether the Receiver actually can get coverage or the true cost. Nonetheless, the difference in costs based on the Receiver's proposed plan is a matter of only a few thousand dollars per month.

3 - The Receiver's 55 IT Shared Services Employees is identical to Studio's original proposal to the Court, with the exception of one unidentified Support Analyst. However, at least 10 of these employees have quit, 5 were fired by the Receiver and Studio understands more or giving notice today.

4 - The Receiver's total number of critical contracts matches Studio' plan, except that the Receiver misidentified the Vimeo contract (an open video platform) as a "Facility Expense"

5 - The \$250,000 will be paid monthly to cover (i) payables that should have already been satisfied under past TSLA payments using (ii) the Receiver's "business judgment". The Receiver's plan does not distinguish between pre-receivership and post-receivership payables. One of the benefits that the Receiver purportedly adds is the ability to avoid paying any pre-receivership receivables. If that is the case, then it is hard to understand why the Receiver needs \$250,000 per month for a total of \$1.5M to pay post-receivership receivables of \$629,635.

**IT Separation Plan Comparison**

Date of Analysis: April 11, 2019

Topic	Studio Plan	Receiver Plan	Commentary
Critical Shared Services	<ul style="list-style-type: none"> <li>o Studio provided a list of 65 Total IT &amp; Compliance Employees.</li> <li>o Total biweekly payments of \$322,589.</li> </ul>	<ul style="list-style-type: none"> <li>o Receiver provided a list of 68 Total IT, Compliance, and Student Financial Services Employees (incorrectly identifying them as only "Total IT &amp; Compliance Employees" in cell B81 of the "Personnel" tab in the spreadsheet shared).</li> <li>o Total biweekly payments of \$319,955.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver added four unidentified Student Financial Services employees. These four Student Financial Services employees will presumably process South University's Title IV draws. If so, the Receiver proposes that Art Institute should pay for 32.4% of this additional payroll expense.</li> <li>o The Receiver shows some savings due to healthcare coverage and rates that the "Receiver is currently applying for."</li> <li>o Studio's biweekly payments are based off actual amounts paid to identified employees biweekly since January.</li> <li>o The Receiver identified a near identical number of Critical IT Employees (55) as Studio did in its original filing (56). The difference is an unidentified Support Analyst.</li> <li>o In the time since Studio first articulated its Critical IT Employee roster to the Court, 11 IT employees left DCEH and another 5 were fired by the Receiver. The Receiver did not incorporate this change into his proposal.</li> </ul>
Critical IT Vendors - Monthly Operating Expense	<ul style="list-style-type: none"> <li>o Studio provided a list of 53 IT vendors deemed critical.</li> <li>o Total monthly operating expense of \$531,220.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver provided an identical list of Critical IT Vendors, adding only "Campus Management Corp" and noting that there is no additional monthly operating expenses incurred.</li> </ul>	<ul style="list-style-type: none"> <li>o No changes to total monthly operating expenses.</li> <li>o There is one small difference in contract identification. Studio identified the Vimeo contract as an IT Infrastructure contract. The Receiver identified the Vimeo contract as a Facilities-related contract. Vimeo is a third-party open video platform.</li> </ul>
Critical IT Vendors - AP Outstanding	<ul style="list-style-type: none"> <li>o Studio provided a list of 53 IT vendors deemed critical.</li> <li>o Total Pre Receivership AP of \$2,143,006 and Post Receivership AP of \$629,635 for total AP of \$2,772,640.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver added one additional critical vendor - Campus Management Corp.</li> <li>o The Receiver did not include a delineation between Pre and Post Receivership payables.</li> <li>o The Receiver calculates total payables of \$3,501,828.</li> </ul>	<ul style="list-style-type: none"> <li>o There is a total difference of \$729,188.38 between the two plans.</li> <li>o The primary difference is the addition of \$1,075,022 in Campus Management Corp AP designated as "critical" by the Receiver. Studio agrees that this is now a critical contract, but only for South because South did not transition away from its third-party FA processor in a timely manner as recommended by Studio. Art Institute no longer requires Campus Management Corp.</li> <li>o The receiver shows a \$345,814 decline in facilities-related AP, presumably due to partial repayment (though the Receiver calculates these payments to be \$353,314 elsewhere, without a reconciliation).</li> </ul>
IT vendor accounts payable	<ul style="list-style-type: none"> <li>o Studio provided a list of 53 IT vendors deemed critical.</li> <li>o Any and all Shared Services expense will be split by South University and The Art Institute based on their pro rata share of students as incurred.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver requests \$250,000 monthly from Art Institute and South for "cure past defaults."</li> <li>o The Receiver proposed that all critical vendor payments and professional fees be split 50/50 by South University and The Art Institutes.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver provides no payment plan alongside the \$250,000 monthly expense and only states that "the funds will be applied in the Receiver's business judgment" - presumably the same business judgment levied against Argosy's operations before its shut down.</li> <li>o Both the new \$250,000 "IT vendor accounts payable" expense and the 50/50 split are entirely reimagined concepts not covered in (or, in the case of the 50/50 split, explicitly in contrast to) the TSLA.</li> </ul>



Facility Vendor Payment	N/A	<ul style="list-style-type: none"> <li>o The Receiver notes that \$353,314 has been paid to facility vendors for services performed in February and March, and notes that the Receiver has not been reimbursed by the institution.</li> </ul>	<ul style="list-style-type: none"> <li>o No such facility vendor payment was made prior to Studio's original filing to the Court.</li> <li>o To Studio's knowledge, the Receiver has not provided the schools an invoice or proof of payment (which is required prior to reimbursement under the transaction documents).</li> </ul>
Professional Fees	N/A	<ul style="list-style-type: none"> <li>o The Receiver requests \$250,000 of monthly fees for "the Receiver's fees and costs of maintaining and operating the DCEH IT System...[t]hese fees and costs cover all services rendered regarding the migration of the system from the inception of the receivership to the present, including the paid cost of litigation, the downsizing of the system after Argosy's closure, and the development of this plan."</li> </ul>	<ul style="list-style-type: none"> <li>o The \$250,000 "Professional Fees" to the Receiver is a clear deviation from the transaction documents upheld by the Court.</li> </ul>
Critical Software License Renewals	<ul style="list-style-type: none"> <li>o Studio provided a list of 13 upcoming license renewals.</li> <li>o Total license fees to be paid of \$2,186,691.</li> </ul>	<ul style="list-style-type: none"> <li>o Receiver listed 12 upcoming license renewals.</li> <li>o The Receiver removed two licenses deemed critical by Studio (D2L Ltd and Symantec).</li> <li>o Added Adobe citing that the expected renewal fee was "unknown."</li> <li>o Total license fees to be paid of \$1,679,691.</li> </ul>	<ul style="list-style-type: none"> <li>o The Symantec contract fell off the list as it was paid pro rata by The Art Institute and South University (without any assistance from the Receiver).</li> <li>o It is unclear why D2L Ltd - creators of Brightspace, the schools' LMS - fell off the list. The \$257,000 payment previously listed by Studio related to South University's license renewal. Without an LMS, there is no South University.</li> <li>o The Art Institute, with Studio's help, has already been negotiating a school-specific contract for Adobe - which is due to come online in mid April.</li> </ul>
Sudden, Unplanned Costs	<ul style="list-style-type: none"> <li>o Though not rearticulated in Studio's Separation Plan presented to the Court, all costs related to Shared Services would be split between South University and The Art Institute pro rata (based off student count), as incurred.</li> </ul>	<ul style="list-style-type: none"> <li>o The Receiver highlights that his budget "does not include a contingency fund for sudden emergency expenses, such as a computer crash," and such expenses would need to be paid by New South and New AI on a 50/50 split.</li> </ul>	<ul style="list-style-type: none"> <li>o Per the above, the 50/50 split is a clear deviation from the transaction costs.</li> <li>o It remains unclear why or how a "computer crash" would necessitate emergency spending over and above the budgeted expenses.</li> <li>o It should be highlighted that the Shared IT Employees and Critical IT Contracts Studio's identified in Studio's proposed plan</li> </ul>

**IT Separation Plan Comparison - Renewals**

Date of Analysis: April 11, 2019

**Critical Renewals**

Vendors	Studio AP Outstanding	Receiver AP Outstanding	Delta	Notes
MICROSOFT CORPORATION	\$475,175	\$475,175	-	
DOCUSIGN INC (4684)	\$100,000	\$100,000	-	
CITRIX SYSTEMS, INC	\$141,953	\$141,953	-	
ADVENT COMMUNICATIONS INC (6994)	\$350,000	\$350,000	-	
ADOBE	Unknown	Unknown	-	Art Institute, with Studio's help, has already negotiated a standalone Adobe contract
INFORMATICA CORPORATION (1789)	\$167,236	\$167,236	-	
Palo Alto	\$150,000	\$150,000	-	
PROOFPOINT INC (1191)	\$150,000	\$150,000	-	
Fulcrum	\$64,000	\$64,000	-	
AVID TECHNOLOGY INC	\$51,328	\$51,328	-	
ABLETON AG (6661)	\$15,000	\$15,000	-	
NetApp	\$15,000	\$15,000	-	
D2L LTD	\$257,000	-	(\$257,000)	Studio believes that South University owes \$257,000 related to its LMS system; it is unclear why this renewal fell off the Receiver's list
Symantec (NONLAWSON)	-	-	-	Studio originally showed a balance of \$250,000 in its March filing; since that time, South and Ai paid the Symantec renewal, pro rata by student body
<b>Total</b>	<b>\$1,936,691</b>	<b>\$1,679,691</b>	<b>(\$257,000)</b>	

## IT Separation Plan Comparison - Payables

Date of Analysis: April 11, 2019

Accounts Payable Vendors	Studio Plan			Receivership Plan			Delta
	Pre Receivership	Post Receivership	Studio AP Outstanding	Pre Receivership	Post Receivership	Receiver AP Outstanding	
CALERO SOFTWARE LLC <sup>1</sup>	\$1,491,134	\$408,793	\$1,899,928	Not disclosed	Not disclosed	\$1,691,999	(\$207,929)
CAMPUS MANAGEMENT CORP <sup>2</sup>	TBD	TBD	\$1,075,002	Not disclosed	Not disclosed	\$1,075,002	-
SAMPSON MORRIS GROUP INC	\$125,824	\$125,824	\$251,648	Not disclosed	Not disclosed	\$188,736	(\$62,912)
IRON MOUNTAIN	\$206,636	\$521	\$207,157	Not disclosed	Not disclosed	\$198,488	(\$8,669)
Duquesne Light	-	-	-	Not disclosed	Not disclosed	-	-
SUNGARD AVAILABILITY SERVICES	\$53,383	\$24,186	\$77,570	Not disclosed	Not disclosed	\$53,383	(\$24,186)
UNIFIED POWER ACQ CORP	\$14,695	-	\$14,695	Not disclosed	Not disclosed	\$14,695	-
LIGHTHOUSE ELECTRICAL CO INC.	\$53,928	\$43,500	\$97,428	Not disclosed	Not disclosed	\$53,928	(\$43,500)
CURVATURE INC	\$74,315	-	\$74,315	Not disclosed	Not disclosed	\$74,298	(\$17)
MASTECH INC	\$9,324	\$18,333	\$27,657	Not disclosed	Not disclosed	\$16,317	(\$11,340)
AMAZON WEB SERVICES LLC (1951)	-	-	-	Not disclosed	Not disclosed	\$32,000	\$32,000
EATON CORPORATION	\$7,114	-	\$7,114	Not disclosed	Not disclosed	\$7,114	-
HUCKESTEIN MECHANICAL SERVICES	\$7,275	-	\$7,275	Not disclosed	Not disclosed	\$7,275	-
BAILS & ASSOCIATES LLC	\$21,600	-	\$21,600	Not disclosed	Not disclosed	\$21,600	-
JOHNSON CONTROLS FIRE	\$25,816	\$2,494	\$28,309	Not disclosed	Not disclosed	\$23,253	(\$5,056)
INTERTECH SECURITY LLC	\$20,857	\$234	\$21,091	Not disclosed	Not disclosed	\$9,517	(\$11,573)
KINGSMEN LLC	\$2,800	-	\$2,800	Not disclosed	Not disclosed	\$2,800	-
XTIVIA, INC.	\$8,010	\$2,670	\$10,680	Not disclosed	Not disclosed	\$10,680	-
Curvative SMS-Cisco	-	-	-	Not disclosed	Not disclosed	-	-
DigiCert (Thawte Inc- Web Server Units)	-	-	-	Not disclosed	Not disclosed	-	-
Mastech - Andy S.	-	-	-	Not disclosed	Not disclosed	-	-
Sirius - HPE Foundation Care 24X7	-	-	-	Not disclosed	Not disclosed	-	-
AUTOMATED LOGIC CONTRACTING	\$6,022	-	\$6,022	Not disclosed	Not disclosed	\$6,022	-
Abhishek Deodhar- MDI	-	-	-	Not disclosed	Not disclosed	-	-
Simplex Grinnell	-	-	-	Not disclosed	Not disclosed	-	-
General Repairs	-	-	-	Not disclosed	Not disclosed	-	-
Siteimprove(Replaces Worldspace)	-	-	-	Not disclosed	Not disclosed	-	-
ASCO POWER SERVICES INC	\$11,585	-	\$11,585	Not disclosed	Not disclosed	\$11,585	-
ASCO	-	-	-	Not disclosed	Not disclosed	-	-
Axway (formerly Vorde)	-	-	-	Not disclosed	Not disclosed	-	-
CUMMINS BRIDGEWAY LLC	\$1,628	-	\$1,628	Not disclosed	Not disclosed	\$1,628	-
HP HW Maintenance	-	-	-	Not disclosed	Not disclosed	-	-
Pitt Chemical	-	-	-	Not disclosed	Not disclosed	-	-
MILLER MATS	\$1,081	\$782	\$1,863	Not disclosed	Not disclosed	\$1,081	(\$782)
STABB Brother	-	-	-	Not disclosed	Not disclosed	-	-
Automated Logic (Maintenance)	-	-	-	Not disclosed	Not disclosed	-	-
General Supplies	-	-	-	Not disclosed	Not disclosed	-	-
Crossbrowsertesting.com	-	-	-	Not disclosed	Not disclosed	-	-
Network Solutions	-	-	-	Not disclosed	Not disclosed	-	-
WASTE MANAGEMENT	(\$850)	\$2,090	\$1,239	Not disclosed	Not disclosed	(\$332)	(\$1,572)
BERGER TRANSFER & STORAGE	\$186	-	\$186	Not disclosed	Not disclosed	\$186	-
ABC FIRE EXTINGUISHER CO, INC.	\$642	\$208	\$851	Not disclosed	Not disclosed	\$574	(\$277)
ABC Medical Supply	-	-	-	Not disclosed	Not disclosed	-	-
AVI Services (Reclass to 70035-0)	-	-	-	Not disclosed	Not disclosed	-	-
ASD - Service Call	-	-	-	Not disclosed	Not disclosed	-	-
Educause-Domain Renewal	-	-	-	Not disclosed	Not disclosed	-	-
Manion Plumbing	-	-	-	Not disclosed	Not disclosed	-	-
ARIN Registry	-	-	-	Not disclosed	Not disclosed	-	-
Minor Operating Permit	-	-	-	Not disclosed	Not disclosed	-	-
ENTRUST	-	-	-	Not disclosed	Not disclosed	-	-
Vimeo	-	-	-	Not disclosed	Not disclosed	-	-
Common Wealth	-	-	-	Not disclosed	Not disclosed	-	-
Plans Examiners (Data Center Fire Inspection)	-	-	-	Not disclosed	Not disclosed	-	-
<b>Total</b>	<b>\$2,143,006</b>	<b>\$629,635</b>	<b>\$3,847,642</b>	<b>N/A</b>	<b>N/A</b>	<b>\$3,501,828</b>	<b>(\$345,814)</b>

## Footnotes

1 - The net \$345,814 difference presumably relates to the Receiver's partial payment to the Pittsburgh landlord and related facilities vendors

2 - Studio originally showed \$0 for Campus Management because, had South transitioned to its new processor in a timely manner, the contract would no longer be deemed critical

**Jones, Diane**

---

**From:** Jones, Diane  
**Sent:** Thursday, April 11, 2019 8:18 PM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Subject:** RE: New documents: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 257, N.D. Ohio 1:19-cv-00145-DAP)

unbelievable

---

**From:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Sent:** Thursday, April 11, 2019 5:49 PM  
**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Subject:** FW: New documents: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 257, N.D. Ohio 1:19-cv-00145-DAP)

If Studio's representations in the status report are true, it looks like South is now onboard with the Studio plan. Consequently, Studio is asking for the receivership to end:

Studio informs the Court that it is doubtful – given the continuous egregious behavior of the Receiver – that Studio actually would be allowed to execute Studio's Separation Plan with the Receiver in place. The Receiver's behavior has only become more desperate and detrimental to the survival of South University and the Arts Institutes, as evidenced by the blatantly false assertions in his frivolous Emergency Motion of the Receiver for an Order Requiring Studio Enterprise Manager, LLC and John J. Altorelli to Show Cause Why They Should Not be Held in Contempt of this Court for their Violations of the Injunctions Contained in the Amended Order Appointing Receiver, filed today (Docket No. 252). Consequently – and especially given the support of both the Arts Institutes and South University for Studio's Separation Plan – Studio believes the best solution is for this Court to terminate the receivership at the earliest possible date, allowing Studio, the Arts Institutes, and South University to move forward with Studio's Separation Plan without the interference of the Receiver.

---

**From:** [ECFdocuments@pacerpro.com](mailto:ECFdocuments@pacerpro.com) [<mailto:ECFdocuments@pacerpro.com>]  
**Sent:** Thursday, April 11, 2019 4:05 PM  
**To:** Mangold, Donna; [jonathan.e.jacobson@usdoj.gov](mailto:jonathan.e.jacobson@usdoj.gov); [danielle.pham@usdoj.gov](mailto:danielle.pham@usdoj.gov); [jwe@weadvocate.net](mailto:jwe@weadvocate.net); [mark@dottoreco.com](mailto:mark@dottoreco.com); [mkw@weadvocate.net](mailto:mkw@weadvocate.net)  
**Subject:** New documents: Digital Media Solutions, LLC v. South University of Ohio, LLC et al (Doc# 257, N.D. Ohio 1:19-cv-00145-DAP)

## Digital Media Solutions, LLC v. South University of Ohio, LLC et al

**Docket entry number: 257**

Third Status Report Studio Enterprise Manager, LLC's Third Status Report for the Extrication of the Ongoing Campuses of South University and The Arts Institutes Entities from the Dream Center Holdings, LLC's Shared IT Platform filed by Studio Enterprise Manager, LLC. (Attachments: # (1) Exhibit A - Receiver's Plan, # (2) Exhibit B - Studio's Plan, # (3) Exhibit C - Comparison of Studio and Receiver Plans)Related document(s)[229], [247], [206], [237].(Opincar, Scott) (Entered: 04/11/2019)

*Date entered: 2019-04-11*

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**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Wednesday, April 17, 2019 11:25 AM  
**To:** Jones, Diane; Minor, Robin; Finley, Steve; Frola, Michael; Bennett, Ron; Sikora, Tara  
**Subject:** RE: Nationwide Academic Transcript Scandal for Doctoral Graduates of Argosy University - UPDATE

(b)(5)

(b)(5)

This is now posted on the Argosy site:

*If you received your transcript on white paper and need to request one on formal transcript paper, please email [service@dcedh.org](mailto:service@dcedh.org)*

---

**From:** Jones, Diane  
**Sent:** Monday, April 15, 2019 11:40 AM  
**To:** Mangold, Donna; Minor, Robin; Finley, Steve; Frola, Michael  
**Subject:** Fwd: Nationwide Academic Transcript Scandal for Doctoral Graduates of Argosy University

(b)(5)

Thanks  
Diane

Sent from my iPhone

Begin forwarded message:

**From:** "Dr. Thomas Schaefer" <[drschaef@cfl.rr.com](mailto:drschaef@cfl.rr.com)>  
**Date:** April 15, 2019 at 10:39:58 AM EDT  
**To:** <[Diane.jones@ed.gov](mailto:Diane.jones@ed.gov)>  
**Cc:** <[dr.ccastro-ceo@aurora-international-companies.com](mailto:dr.ccastro-ceo@aurora-international-companies.com)>  
**Subject:** Nationwide Academic Transcript Scandal for Doctoral Graduates of Argosy University

Dear Mrs. Jones,

My name is Dr. Tom Schaefer, and with Dr. Carmen Castro we wanted to inform you of a nationwide Academic Transcript Scandal for Doctoral Graduates of Argosy University Sarasota Campus.

As you know, Argosy University closed its doors in early March 2019 under the direction of the receivership of Dottore Companies. The sudden closure of Argosy University left thousands of active student and graduates scrambling to try to finish their degrees, transfer to other academic institutions, and to obtain official academic transcripts. On Monday April 8, 2019 we learned that the academic transcripts that Dream Center Education Holdings, operating under the oversight of Dottore Companies as the receivership, are sending out for Argosy University are not going to be accepted as official academic transcripts. The transcripts Dream Center Education Holdings sent out is a photo copy on standard white paper and contains no security features on the envelope or the transcript documents themselves. In contrast, a prior copy of a transcript obtained from the Argosy University directly from the Sarasota Campus contains clear security markings. The transcript was printed on security paper from the University, that notes that it is has been copied when ran through a photo copier, contains the seal of the university on the background, contains the name of the university in the white space on the front of the document, and every page is signed by the registrar. By law these academic transcripts must be sealed and be secure in order to avoid tampering of the academic transcript. I have attached a copy of both of these documents to this email.

These academic transcripts being sent by Dream Center Education Holdings will be rejected by universities and corporations in the United States of America and around the world. Without properly processed transcripts it will be impossible for doctors like myself and Dr. Castro to get hired at any university or college because the providing of official transcripts that contain security markings is a requirement. Additionally, students applying to get accepted into academic programs at another university or college will encounter similar issues as the documents do not meet standards to qualify as an official transcript.

The actions of Dream Center Education Holdings, operating under the oversight of Dottore Companies as the receivership, threatens our ability to continue to work in Higher Education, as well as transition into industry. The closure of Argosy University has made our degrees of lesser value, and now our viability in the workforce is compromised further because Dream Center Education Holdings, operating under the oversight of Dottore Companies as the receivership, cannot generate an official transcript that would be accepted. You can contact me Dr. Thomas Schaefer at my mobile number 1.321.228.7312 and via email at [drschaef@cfl.rr.com](mailto:drschaef@cfl.rr.com) and you can reach Dr. Carmen Castro at her International Mobile 1.561.558.5950 and via email at [dr.ccastro-ceo@aurora-international.companies.com](mailto:dr.ccastro-ceo@aurora-international.companies.com)

Please help us get this academic transcript issue corrected. It is affecting millions of Doctors who graduated with the University of Sarasota now known as Argosy University for us not to lose our Doctoral Degrees with the Receivership firm and Dream Center Education Holding Company sending out invalid academic transcripts which are being printed in regular copy paper without the correct academic transcript paper without the protected water marks and university logos and state seals and register signature they are stealing our valid and hard earned Doctoral degrees from under us by producing invalid academic transcripts. Thank you, once again for taking the time to investigate this nationwide academic transcript sandal and to help protect our educational investment.

Submitted With Desperation,

Thank you,

**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Wednesday, April 24, 2019 7:55 PM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Brinton, Jed  
**Subject:** Fwd: Dream Center: Law Clerk Email  
**Attachments:** (b)(5)

(b)(5)

(b)(5)

Sent from my Verizon, Samsung Galaxy smartphone

----- Original message -----

From: "Jacobson, Jonathan E. (CIV)" <Jonathan.E.Jacobson@usdoj.gov>  
Date: 4/24/19 7:39 PM (GMT-05:00)  
To: "Mangold, Donna" <Donna.Mangold@ed.gov>, "Finley, Steve" <Steve.Finley@ed.gov>  
Cc: "Pham, Danielle (CIV)" <Danielle.Pham@usdoj.gov>  
Subject: Dream Center: Law Clerk Email

Donna and Steve,

We received the attached emails from Magistrate Judge Parker's law clerk today. I'm attaching a proposed response that is still in draft form and now circulating here at DOJ.

Jonathan



**IN THE UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

DIGITAL MEDIA SOLUTIONS, LLC,	)	
Plaintiff,	)	
v.	)	Case No. 1:19-cv-145
	)	
SOUTH UNIVERSITY	)	JUDGE DAN AARON POLSTER
OF OHIO, LLC, <i>et al.</i> ,	)	MAGISTRATE JUDGE
Defendants.	)	THOMAS M. PARKER

**UNITED STATES’ STATEMENT OF INTEREST CONCERNING ORDER TO SHOW  
CAUSE WHY RECEIVERSHIP SHOULD NOT BE VACATED**

The United States respectfully submits this Statement of Interest, pursuant to 28 U.S.C. § 517,<sup>1</sup> to set forth its interests with respect to this matter and as regards orders entered by the Court on March 6 and March 8, 2019, including the Order to Show Cause (ECF No. 111) (“Show Cause Order”) why the January 18, 2019 receivership order (ECF No. 8, as amended by ECF No. 14) (“Receivership Order”) should not be vacated.<sup>2</sup>

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<sup>1</sup> Title 28, Section 517 of the United States Code provides that “[t]he Solicitor General, or any officer of the Department of Justice, may be sent by the Attorney General to any State or district in the United States to attend to the interests of the United States in a suit pending in a court of the United States, or in a court of a State, or to attend to any other interest of the United States.” The United States sets forth its interests in cases to which it is not a party when it deems it appropriate to do so, and sometimes courts invite the United States to participate in proceedings to which it is not a party by the filing of such Statements of Interest. The filing of a Statement of Interest pursuant to this authority does not constitute intervention by the United States or make the United States a party to the litigation.

<sup>2</sup> Those orders do not compel conduct of the Department of Education, which is not a party before the Court in this case. There are procedures by which information may be sought from federal agencies for purposes of litigation where the United States is not a party to the litigation. Notably, Congress has provided an avenue for obtaining information from federal officials in situations in which a federal agency is not a party. *See* 5 U.S.C. § 301 (“[T]he head

## **STATUTORY AND REGULATORY BACKGROUND**

Title IV of the Higher Education Act (“HEA”) establishes federal student financial aid programs through which the government forwards student loan proceeds to eligible higher education institutions. *See* 20 U.S.C. § 1070(a). To be eligible, an institution must meet the HEA Title IV definition of “institution of higher education.” *Id.* §§ 1001, 1002. To participate in Title IV programs, an institution must establish, *inter alia*, that it is authorized to operate in the state in which it is located; that it is accredited by a recognized accrediting agency; and that it is administratively capable and financially responsible. *See id.* § 1099c(a). To demonstrate financial responsibility, an institution must meet certain specified financial obligations and regulatory measures. *See* 34 C.F.R. §§ 668.171-668.173.

A school that wishes to participate in a Title IV program may enter into a program participation agreement with the United States Department of Education (“Education”). *See* 20 U.S.C. § 1094(a). Under the participation agreement, the institution is approved as a fiduciary to draw down its students’ federal financial aid, which is then disbursed to the institution and to the students. *See* 34 C.F.R. § 668.82. To comply with the terms of their participation agreements,

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of an executive department . . . may prescribe regulations for the government of his department, the conduct of its employees, the distribution and performance of its business, and the custody, use and preservation of its records, papers and property.”). Pursuant to this statute, a federal agency may establish procedures for responding to non-party subpoenas or demands for testimony. And the Supreme Court has long recognized the authority of federal agencies to regulate the disclosure of information by their employees. *See United States ex rel. Touhy v. Ragen*, 340 US. 462 (1951). In *Touhy*, the Court held that a federal employee could not be held in contempt for refusing to produce subpoenaed documents, where his refusal was based on regulations prohibiting the disclosure of official information without prior authorization. *Id.* at 468. The Department of Education has promulgated *Touhy* regulations that specify the appropriate circumstances under which testimony may be obtained from its employees upon proper authorization. *See* 34 C.F.R. §§ 8.1-8.4. But those procedures have not been appropriately invoked or applied here for the purpose of obtaining testimony from the Department of Education in this proceeding.

school owners must comply with the eligibility requirements and adhere to the Title IV statute and associated regulations.

The decision to open schools, buy schools, sell schools, or close schools is within the independent business judgment of the school itself. Education does not control these decisions. But if a school closes or changes ownership, a program participation agreement automatically terminates. 34 C.F.R. § 668.14(g). The participation agreement also ends if an institution loses state approval, accreditation, or if the owner files for bankruptcy. *See* 20 U.S.C. §§ 1001, 1002, 1094; 34 C.F.R. § 600.40; 34 C.F.R. § 668.14; 34 C.F.R. § 668.26; 34 C.F.R. § 600.7(a)(2). If an institution's ownership changes and the new owner wishes to continue participating in federal student aid programs, the new owner must submit an application to Education demonstrating that the institution meets all applicable standards. *See* 34 C.F.R. § 600.20(g)-(h); 34 C.F.R. § 600.31(a).

In the event that an institution ceases operations or faces possible loss of its licensure, accreditation, or certification, the institution must, *inter alia*, submit a teach-out plan specifying how students will be able to complete their degrees. *See* 34 C.F.R. § 668.14(b)(31).<sup>3</sup>

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<sup>3</sup> If a school closes, students who do not participate in a teach out or do not complete their program of study at another institution may be entitled to closed school loan discharges. 20 U.S.C. § 1087(c)(1); 34 C.F.R. § 685.214(a). Under Title IV, Education has a right to recover closed-school discharges from the closed institution. *See* 20 U.S.C. §§ 1087(c)(1) (requiring Secretary of Education to “pursue any claim available to [discharged borrower for student loan] against the institution”) and 1087(c)(2) (“A borrower whose loan has been discharged pursuant to this subsection shall be deemed to have assigned to the United States the right to a loan refund up to the amount discharged against the institution and its affiliates and principals.”); 34 C.F.R. § 685.214(e)(1) (providing that upon Education’s discharge of a borrower’s loan, “the borrower is deemed to have assigned to and relinquished in favor of the Secretary [of Education] any right to a loan refund (up to the amount discharged) that the borrower (or student) may have by contract or applicable law with respect to the loan or the enrollment agreement for the program for which the loan was received, against the school”); *College of Visual Arts*, 2015 WL 6396241, at \*8 (Dep’t of Educ., Office of Hearings and Appeals, July 20, 2015) (holding, based on 20

### **FACTUAL AND PROCEDURAL BACKGROUND**

Defendants South University of Ohio, LLC; DCEH Education Holdings, LLC; and Argosy Education Group, LLC (collectively, “Dream Center”) own or operate higher education institutions that receive Title IV funds. ECF No. 1 (“Complaint” or “Compl.”) ¶¶ 4-6, 37. On January 18, 2019, Plaintiff Digital Media Solutions, LLC (“DMS”), a trade creditor, alleged that Dream Center owes DMS approximately \$250,000 for services DMS performed on Dream Center’s behalf (principally, seeking out prospective students for Dream Center-affiliated schools). *Id.* ¶¶ 13-18. DMS claimed that Dream Center-affiliated schools were struggling economically and on the precipice of bankruptcy, and that appointment of a receiver would protect students and creditors by preserving value that exceeds what would be available in a bankruptcy. *Id.* ¶ 37. Along with the Complaint, DMS simultaneously filed an emergency motion seeking the appointment of a receiver to “protect thousands of students . . . as well as [DMS] and hundreds of other trade creditors.” ECF No. 3 (“Motion to Appoint a Receiver”), at 12.

On the same day that DMS filed the Complaint and the Motion to Appoint a Receiver, Dream Center admitted to all of the material allegations therein, ECF No. 6 (“Answer”) ¶¶ 1-4, and consented to appointment of a receiver. ECF No. 7. Also on January 18, 2019, the Court issued the Receivership Order, appointed a receiver, Mark Dottore (“Receiver”), and enjoined certain entities. *See* Receivership Order ¶¶ 1, 10-11. The Receivership Order authorized the Receiver “to take possession of and control of all of the real and personal property arising out of, or pertaining to” Dream Center “in a Receivership Estate,” and further “enjoined and stayed” certain creditors “from commencing or continuing any action at law or suit or proceeding in

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U.S.C. §§ 1087(c) and 1099c(e)(1)(B), that Education has a direct claim to recover closed-school discharges).

equity to foreclose any lien or enforce any claim against the Property, or its Books and Records or Property, or against the Receiver, in any court.” Receivership Order ¶¶ 1-2, 10.

In a February 27, 2019 letter, Education denied a request from Argosy University (“Argosy”) for approval of a change in ownership or structure resulting in a change of control. *See* Letter from Michael J. Frola, Director, Multi-Regional and Foreign Schools Participation Division, U.S. Department of Education, to Mark Dottore, Dottore Companies, and Randall K. Barton, Chairman, Dream Center Education Holdings (Feb. 27, 2019), *available at* <https://studentaid.ed.gov/sa/sites/default/files/argosy-cio-denial-redacted.pdf> (the “Denial Letter”). The Denial Letter states that “[s]ignificant funds were released by [Education] since mid-January, including after the Receiver was appointed, which should have been used to pay the existing unpaid credit balances [*i.e.*, ‘student stipends’] owed to [Argosy] students.” *Id.* at 4. In the Denial Letter, Education concluded that Argosy had not met required standards of financial responsibility or administrative capability. *Id.* at 2-6.

As explained in the Denial Letter, subject to limited exceptions Education may not distribute additional federal student aid funds (including for student stipends) to affected Argosy institutions.

An associated announcement on Education’s website explains that an Argosy student

may be eligible for a 100-percent discharge of [his or her] Direct Loans, Federal Family Education Loan (FFEL) Program Loans, or Federal Perkins Loans . . . taken for [the student’s school] program under either of the[] [following two] circumstances:

- [The student’s] school closed while [the student was] enrolled, and [the student] didn’t complete [his or her] program because of the closure. If [the student was] on an approved leave of absence, [he or she is] considered to have been enrolled at the school.

- [The student’s] school closed within 120 days after [he or she] withdrew.

*Important Information about Argosy University and The Art Institutes*, Federal Student Aid: An Office of the U.S. Department of Education (updated March 6, 2019), <https://studentaid.ed.gov/sa/about/announcements/dream-center#credit-balance-refunds>. This announcement provides further details about discharge of student obligations and other alternatives, including transfer.

### **STATEMENT**

#### **THE RECEIVERSHIP ORDER SHOULD BE VACATED**

“The district court possesses a broad range of discretion in deciding whether or not to terminate an equity receivership.” *SEC v. An-Car Oil Co.*, 604 F.2d 114, 119 (1st Cir. 1979); *see generally* 65 Am. Jur. 2d *Receivers* § 146 (Feb. 2019 update) (“The decision on whether to terminate a receivership turns on the facts and circumstances of each case.”). “In determining whether to continue a receivership or discharge the receiver, the court will consider the rights and interests of all parties concerned” and “a receivership should be dismissed when the reason for the receivership ceases to exist.” *Id.* “A receivership should not be the means of continuing an enterprise that does not show evident signs of working out for the benefit of the creditors.” *Jones v. Vill. of Proctorville, Ohio*, 290 F.2d 49, 50 (6th Cir. 1961).

#### **A. DMC’s and Dream Center’s Pleadings Suggest the Absence of a Controversy, Without Which This Court Would Lack Subject Matter Jurisdiction**

The content and filing circumstances of DMS’s Complaint (ECF No. 1) and Dream Center’s Answer (ECF No. 6) suggest that an actual controversy between them may not exist. Except for inconsequential allegations in two of the Complaint’s 39 paragraphs, Dream Center

admitted every allegation of the Complaint in its two-page Answer.<sup>4</sup> Moreover, Dream Center both answered the Complaint and consented to the motion seeking a receiver on the same day that the Complaint and motion were filed.

A plaintiff seeking “to invoke the jurisdiction of the federal courts must satisfy the threshold requirement imposed by Article III of the Constitution by alleging an actual case or controversy.” *City of Los Angeles v. Lyons*, 461 U.S. 95, 101 (1983) (citation omitted). “[T]o be justiciable, a controversy ‘must be such that it can presently be litigated and decided and not hypothetical, conjectural, conditional or based upon the possibility of a factual situation that may never develop.’” *Stotts v. Pierson*, 976 F. Supp. 2d 948, 974 (S.D. Ohio 2013) (quoting *Hillard v. First Fin. Ins. Co.*, 968 F.2d 1214, 1992 WL 164998, at \*2 (6th Cir. 1992) (unpublished)). The dispute must be “definite and concrete, touching the legal relations of parties having adverse legal interests”; it must be “real and substantial”; and it must “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.” *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (internal quotation marks and citation omitted). In addition, “[a] district court shall not have jurisdiction of a civil action in which any party, by assignment or otherwise, has been improperly or collusively made or joined to invoke the jurisdiction of such court.” 28 U.S.C. § 1359; see *Nolan v. Boeing Co.*, 919 F.2d 1058, 1067 (5th Cir. 1990) (explaining that this section “is designed to prevent the litigation of claims in federal court by suitors who by sham,

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<sup>4</sup> Dream Center denied for lack of information sufficient to form a belief that DMS “[was] founded by a team of lifelong athletes,” Compl. ¶ 1, “specializes in helping its clients accelerate their growth by deploying diversified and data-driven digital media customer acquisition solutions,” *id.*, and “is a Delaware limited liability company” whose members are three specified entities organized under Delaware law with principal places of business in New York and Toronto, Ontario. *Id.* ¶ 3.

pretense, or other fiction acquire a spurious status that would allow them to invoke the limited jurisdiction of the federal courts.”).

In similar circumstances, where plaintiffs and defendants have brought prepackaged complaints, answers, and motions, courts have questioned their jurisdiction. In *Georgine v. Amchem Prods., Inc.*, 83 F.3d 610, 619-20 (3d Cir. 1996), a large group of tort plaintiffs reached an agreement with tortfeasor defendants before both groups filed—on the same day—a complaint, answer, and joint motion seeking conditional class certification for purposes of obtaining judicial approval of a stipulated settlement. The court explained that the presentation of the suit and settlement “in one package” gave it “serious doubts” as to the “existence of justiciability and subject matter jurisdiction,” but ultimately did not reach the issue because class certification was inappropriate in any event. *Id* at 617, 622-23; *see also Moore v. Charlotte-Mecklenburg Bd. of Ed.*, 402 U.S. 47, 48 (1971) (holding that where “both litigants desire precisely the same result . . . . [t]here is . . . no case or controversy within the meaning of Art. III of the Constitution”); *Carlough v. Amchem Prods., Inc.*, 834 F. Supp. 1437, 1462 (E.D. Pa. 1993) (“[I]f two litigants commence a suit with the same goals in mind, no controversy exists to give the district court jurisdiction.” (internal quotation marks and citation omitted)).

Here, as explained above, no justiciable controversy appears to exist between the named parties in this litigation. The complaint, answer, motion seeking appointment of a receiver, and response to the motion seeking appointment of a receiver were filed on the same day. ECF Nos. 1, 2, 6, 7. DMS’s motion seeking appointment of the receiver also contains identical language to a declaration Dream Center filed later the same day. *Compare, e.g., Motion to Appoint a Receiver*, at 4 (“If allowed to proceed in an orderly fashion, the Universities will follow the teach-out protocols to end operations at the Teach-out Schools . . . .”), *with* ECF No. 7-1, at ¶ 12



(declaration in support of Dream Center’s response to Motion to Appoint a Receiver) (“If allowed to proceed in an orderly fashion through receivership, the Universities will follow the teach-out protocols to end operations at the Teach-out Schools . . . .”). The parties to this litigation do not appear to be truly adverse, and, in the absence of a justiciable case or controversy, the Court lacks subject matter jurisdiction.

**B. Parties in Interest May Protect Their Respective Interests in Bankruptcy Proceedings**

Remedies superior to the Receivership Order appear to be readily available to deal with the claims being litigated in this case, including the claims of Dream Center’s students. As further explained below, the Congressionally-enacted Bankruptcy Code provides a simple structure under which the rights of Dream Center and its creditors could be pursued, and priority of creditors determined. This structure, carefully crafted by Congress, appears superior under the circumstances to continuation of the Receivership Order. And if parties in interest choose not to file a bankruptcy case, vacating the Receivership Order would free them to pursue their rights in individual actions in forums with jurisdiction over the disputes. That alternative also coheres with applicable law.

**1. Because Dream Center Is Financially Distressed, Bankruptcy Provides a Superior Alternative for Resolving the Competing Claims of DMS, Students and Other Creditors (Including Intervenors)**

The Bankruptcy Code provides clear statutory guidance. As the Supreme Court recently explained, “[f]iling for [c]hapter 11 bankruptcy has several relevant legal consequences.”

- First, an estate is created comprising all property of the debtor.
- Second, a fiduciary is installed to manage the estate in the interest of the creditors[, who] may operate the [debtor’s] business, . . . and perform certain

bankruptcy-related functions, such as seeking to recover for the estate preferential or fraudulent transfers made to other persons . . . .

- Third, an “automatic stay” of all collection proceedings against the debtor takes effect.

*Czyzewski v. Jevic Holding Corp.*, 137 S. Ct. 973, 978-79 (2017) (“*Jevic*”) (citing, in sequence, 11 U.S.C. §§ 541(a)(1), 1106, 1107(a), 363(c)(1), 1108 and 362(a)). Chapter 11 of the Bankruptcy Code thus “strikes a balance between a debtor’s interest in reorganizing and restructuring its debts and the creditors’ interest in maximizing the value of the bankruptcy estate.” *Fla. Dep’t of Revenue v. Piccadilly Cafeterias, Inc.*, 554 U.S. 33, 51 (2008).

The Bankruptcy “Code also sets forth a basic system of priority, which ordinarily determines the order in which the bankruptcy court will distribute assets of the estate.” *Jevic*, 137 S. Ct. at 979; *see In re Mansfield Tire & Rubber Co.*, 942 F.2d 1055, 1059 (6th Cir. 1991); *see also* 11 U.S.C. § 507 (setting priorities among unsecured creditors). Bankruptcy courts are familiar with implementing this Congressionally-mandated payment prioritization.

The Receivership Order, while containing some paragraphs analogous to Bankruptcy Code provisions, does not provide an adequate substitute for a bankruptcy case. The Receivership Order, for example, does not address the priority in which creditors’ claims will be paid. This point seems especially salient for Dream Center as a result of Argosy’s loss of Title IV funds. The Receiver appears poised to attempt liquidation of the receivership estate’s assets, and “[t]he proper forum for liquidation [is] . . . the bankruptcy court.” *SEC v. Am. Bd. of Trade, Inc.*, 830 F.2d 431, 436-38 (2d Cir. 1987). In *SEC*, the Second Circuit noted that through a receivership, the district court had “taken upon *itself* the burden of processing proof-of-claim forms filed by thousands of noteholders and other creditors, of setting priorities among classes of

creditors, and of administering sales of real property, all without the aid of either the experience of a bankruptcy judge or the guidance of the bankruptcy code.” *Id.* at 438. These “functions undertaken by the district court . . . demonstrate the wisdom of not using a receivership as a substitute for bankruptcy.” *Id.* at 437. Put simply, “[a] receivership is not a substitute for bankruptcy proceedings.” *Fed. Nat’l Mortg. Ass’n v. Olympia Mortg. Corp.*, No. 04-CV-4971, 2005 WL 2205335, at \*2 (E.D.N.Y. Sept. 9, 2005) (citing *id.*).

The Receivership Order also deprives Dream Center’s creditors of other Bankruptcy Code protections. For example, under the Bankruptcy Code, a debtor would be required to schedule undisputed, non-contingent and liquidated creditors’ claims, and generally, if not contested, these would be paid without creditor action to the extent the bankruptcy estate contained sufficient assets. *See* 11 U.S.C. § 502; Fed. Bankr. R. 3003(b). The Bankruptcy Code also permits creditors under specified conditions to commence involuntary bankruptcy cases. 11 U.S.C. § 303. By contrast, under the Receivership Order, Dream Center’s creditors lack these protections. In these and many other ways, the Bankruptcy Code provides a forum for efficiently sorting out a financially troubled entity’s debts and financial affairs, while accommodating the rights and interests of the entity’s creditors. *See Thermo Credit, LLC v. DCA Servs., Inc.*, No. 17-4207, 2018 WL 5503337, at \*8 (6th Cir. Oct. 29, 2018) (recognizing that a bankruptcy court is “the standard forum to resolve disputes between creditors”).

This action’s numerous intervention petitions confirm that bankruptcy offers a superior procedural vehicle for addressing creditor claims. *E.g.*, ECF Nos. 42, 45, 77, 88, 102. An orderly bankruptcy would eliminate the uncertainty expressed by creditors and other intervenors in this case about what rules apply to their claims. *See SEC v. Lincoln Thrift Ass’n*, 577 F.2d 600, 606 (9th Cir. 1978) (recognizing that liquidation of a corporation in receivership “may more

properly be the subject of a bankruptcy proceeding,” and that “the district court should, at an early stage in the liquidation, set forth in express terms the justification for retaining its equity jurisdiction, indicating why the exercise of its jurisdiction is preferable to a liquidation in bankruptcy court”; recognizing also that in “true bankruptcy, procedures are better geared for creditors and depositors to give them a day in court and protect their rights”); *In re Kreislers, Inc.*, 112 B.R. 996, 1000 (Bankr. D.S.D. 1990) (“Whether filed by a receiver or other entitled party, the bankruptcy court is equipped to accept debtors in receivership, just as the bankruptcy court is empowered to invalidate erroneous receiverships.”).

One of the central reasons educational institutions prefer receivership to bankruptcy—protecting enrolled students in a Title IV-qualified school, *see* Motion to Appoint a Receiver, at pp. 2-3—no longer applies to Argosy because Education already has determined that these Dream Center entities are no longer qualified to receive Title IV funds. *See* Denial Letter. As DMS’s motion seeking appointment of a receiver correctly explained, educational institutions petitioning for bankruptcy cease to be eligible to receive Title IV funding under the HEA. *See* 20 U.S.C. § 1002(a)(4)(A) (“An institution shall not be considered to meet the definition of an institution of higher education . . . if . . . the institution, or an affiliate of the institution that has the power, by contract or ownership interest, to direct or cause the direction of the management or policies of the institution, has filed for bankruptcy . . .”). For this reason, educational institutions or their creditors sometimes seek instead to have a receiver appointed for them. *See, e.g., Educ. Corp. of Am. v. United States Dep’t of Educ.*, No. 18-CV-01698, 2018 WL 5786077, at \*2 (N.D. Ala. Nov. 5, 2018) (noting that plaintiff “contends that it cannot seek protection by ‘a traditional bankruptcy filing’ from these lawsuits because, under the HEA, a bankruptcy filing disqualifies an institution from participating in Title IV funding programs”). But here, given that

Argosy schools are disqualified from receiving Title IV funds, there is no consequential distinction between receivership and bankruptcy, at least for purposes of Argosy.

**2. In Bankruptcy, an Orderly Disposition of Dream Center's Assets Could Occur to Make Payments Toward Creditors' Claims (Including Those of Students)**

The Bankruptcy Code protects the rights of stakeholders and assures that similarly situated stakeholders receive similar treatment. In cases under Chapter 11, for example, reorganization plans may “provide for the sale of all or substantially all of the property of the estate, and the distribution of the proceeds of such sale among holders of claims or interests . . . .” 11 U.S.C. § 1123(b)(4). Plans also may “provide for the assumption, rejection, or assignment of any executory contract or unexpired lease of the debtor not previously rejected . . . .” 11 U.S.C. § 1123(b)(2). Even before a reorganization plan is confirmed, particular assets may be sold and the proceeds placed into the estate for later distribution. *See* 11 U.S.C. § 363. Non-residential leases are deemed rejected if not assumed within a defined period, and in the meantime, the debtor must perform under the leases. 11 U.S.C. § 365(d).

These statutory mechanisms have been used for resolving claims, including student claims, against financially troubled educational institutions dependent on HEA title IV funding. In *In re Corinthian Colleges, Inc.*, No. 15-10952 (Bankr. D. Del.), operators of a large network of for-profit post-secondary education schools had participated in Title IV grant and loan programs. Under their confirmed reorganization plan, certain estate assets were placed in a liquidation trust to pay specified claims and a separate trust was created for paying claims of their students and certain governmental claims. *In re Corinthian Colleges, Inc.*, No. 15-10952, Order Confirming Third Amended and Modified Combined Disclosure Statement and Chapter 11 Plan of Liquidation, ECF No. 913 (Bankr. D. Del. Aug. 28, 2015). Likewise, in *In re ITT Educational Services, Inc.*, No. 16-07207-JMC-7A (Bankr. S.D. Ind.), a large network of for-

profit schools operated nationwide is being liquidated under Bankruptcy Code chapter 7. Students filed a class action complaint against the schools' chapter 7 trustee, *Villalba et al v. ITT Educational Services, Inc. (In re ITT Educational Services, Inc.)*, No. 17-50003 (Bankr. S.D. Ind.), and the court approved the trustee's settlement under which these claims were allowed for \$1.5 billion (subject to specified adjustments) and will be paid pro rata with other unsecured claims. *See In re ITT Educational Services, Inc.*, No. 16-07207, Final Order Granting Trustee's Motion for Authority To Enter Into Settlement Of Student Class Action, ECF No. 3079 (Bankr. S.D. Ind. Nov. 30, 2018).

In short, the Receivership Order should be vacated because bankruptcy provides a method superior to receivership for addressing debtors' and creditors' rights, especially in liquidation.

**CONCLUSION**

For the foregoing reasons, the United States respectfully submits that the Receivership Order should be vacated.

March 11, 2019

Respectfully submitted,

JOSEPH H. HUNT  
Assistant Attorney General

JUSTIN E. HERDMAN  
United States Attorney

SUZANA K. KOCH  
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/s/ Jonathan E. Jacobson  
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Attorneys for the United States

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on March 11, 2019, I electronically filed the foregoing UNITED STATES' STATEMENT OF INTEREST CONCERNING ORDER TO SHOW CAUSE WHY RECEIVERSHIP SHOULD NOT BE VACATED with the Clerk of the Court by using the CM/ECF system, which will send a notice of electronic filing to all CM/ECF participants.

/s/ Jonathan E. Jacobson  
Trial Attorney  
U.S. Department of Justice



**Carrie\_Roush@ohnd.uscourts.gov**

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**From:** Carrie\_Roush@ohnd.uscourts.gov  
**Sent:** Wednesday, April 24, 2019 12:56 PM  
**To:** Jacobson, Jonathan E. (CIV)  
**Subject:** Confidential Information

Mr. Jacobson,

(b)(5)

Thank you.

**Carrie M. Roush**  
Career Law Clerk to  
United States Magistrate Judge  
Thomas M. Parker  
United States District Court  
Northern District of Ohio  
801 W. Superior Ave.  
Cleveland, OH 44113  
(216) 357-7146

**Carrie\_Roush@ohnd.uscourts.gov**

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**From:** Carrie\_Roush@ohnd.uscourts.gov  
**Sent:** Wednesday, April 24, 2019 12:49 PM  
**To:** Jacobson, Jonathan E. (CIV)  
**Subject:** Digital Media v. South University, 1:19 cv 0145

Mr. Jacobson,

The court is preparing and will likely file by the end of this week an order indicating the receivership will terminate effective May 31, 2019. The order will invite the parties, intervenors and interested entities, including the DOE to submit position statements concerning matters they contend should be addressed in the termination order.

We would readily welcome any input from the USDOJ concerning the content of the order that will be issued this week. Also, if you can direct us to any regulations that govern how closed universities must conduct themselves in order to protect the rights of students, the general public and the government, it would be greatly appreciated.

Thank you for your anticipated response.

**Carrie M. Roush**  
Career Law Clerk to  
United States Magistrate Judge  
Thomas M. Parker  
United States District Court  
Northern District of Ohio  
801 W. Superior Ave.  
Cleveland, OH 44113  
(216) 357-7146

Dear Ms. Roush,

Thank you for your email.

The United States does not have any suggestions regarding the content of the order that Judge Parker intends to issue this week.

Our March 11, 2019 Statement of Interest (ECF No. 136) at 2-3 discusses statutes and regulations addressing school closure.

To any extent the forthcoming order identifies issues on which the United States desires to take a position as a non-party, we may exercise our right to file a further statement of interest under 28 U.S.C. § 517.

I will be transitioning out of my current role on April 26, 2019. Any future inquiries can be directed to my colleague Danielle Pham at [danielle.pham@usdoj.gov](mailto:danielle.pham@usdoj.gov).

Thank you,

Jonathan

Jonathan Jacobson  
Trial Attorney  
U.S. Department of Justice  
Civil Division  
Tel: (202) 353-7971

**Jones, Diane**

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**From:** Jones, Diane  
**Sent:** Wednesday, April 24, 2019 8:34 PM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Brinton, Jed  
**Subject:** RE: Dream Center: Law Clerk Email

(b)(5)

Diane

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**From:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Sent:** Wednesday, April 24, 2019 7:55 PM  
**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Brinton, Jed <Jed.Brinton@ed.gov>  
**Subject:** Fwd: Dream Center: Law Clerk Email

This just in. The court is going to issue an order this week ending the receivership effective the end of May. Magistrate Parker has requested that this information be treated as confidential until the court issues the order.

Sent from my Verizon, Samsung Galaxy smartphone

----- Original message -----

**From:** "Jacobson, Jonathan E. (CIV)" <[Jonathan.E.Jacobson@usdoj.gov](mailto:Jonathan.E.Jacobson@usdoj.gov)>  
**Date:** 4/24/19 7:39 PM (GMT-05:00)  
**To:** "Mangold, Donna" <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>, "Finley, Steve" <[Steve.Finley@ed.gov](mailto:Steve.Finley@ed.gov)>  
**Cc:** "Pham, Danielle (CIV)" <[Danielle.Pham@usdoj.gov](mailto:Danielle.Pham@usdoj.gov)>  
**Subject:** Dream Center: Law Clerk Email

Donna and Steve,

We received the attached emails from Magistrate Judge Parker's law clerk today. I'm attaching a proposed response that is still in draft form and now circulating here at DOJ.

Jonathan

## Mangold, Donna

---

**From:** Mangold, Donna  
**Sent:** Thursday, May 2, 2019 9:53 AM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Subject:** FW: The Arts Institutes International (All) required LOC  
**Attachments:** All Follow Up Letter - 05 01 19.pdf; Data for DOE Letter revised 3\_30pm.xlsx

Fyi. This is a further letter from Ai for relief re: the LOC. We had received two letters previously (one from Altorelli/Studio, one from Ai), both of which I told J. Glass were insufficient for our consideration.

---

**From:** Brown, Claude <clbrown@aii.edu>  
**Sent:** Wednesday, May 1, 2019 6:53 PM  
**To:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Cc:** Jones, Diane <Diane.Jones@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Lee Carey, Katherine <kleecarey@cooley.com>; Glass, Jonathon <jglass@cooley.com>  
**Subject:** The Arts Institutes International (All) required LOC

Dear Ms. Mangold,

Please find attached additional data for consideration regarding the financial status of The Arts Institutes International (All) as it relates to the required Letter of Credit. I very much appreciate your attention and your continued courtesies with respect to this matter. I would also ask for the opportunity to come to Washington, D.C. to meet and provide more information to you on this subject. I am available to discuss at any time.

Best regards,  
Claude Brown

**Claude Brown**  
Chancellor

The Arts Institutes International  
615 McMichael Road  
Pittsburgh, PA 15205  
United States  
**310.200.1652 (M)**  
**713.353.4118 (O)**  
**clbrown@aii.edu**



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May 1, 2019

*Via Email*

Donna Mangold  
Deputy Assistant General Counsel  
U.S. Department of Education  
400 Maryland Avenue, S.W.  
Room 6C146  
Washington, D.C.

Dear Ms. Mangold:

This letter is to supplement my letter of March 14, 2019 to provide the Department with additional information regarding the financial status of The Arts Institutes International (“All”) and the eight continuing Art Institutes (the “AI Schools”) acquired in the January 7<sup>th</sup>, 2019 transaction. We appreciate the Department’s patience as we closed out the first quarter of 2019 and completed the financial review process, which allows us to provide a more accurate view of All’s financial situation. We also request the opportunity to meet to discuss the status of All and the AI Schools and the next steps with respect to providing the Department with a letter of credit.

While All and the AI Schools are stable and operating smoothly, we continue to navigate the unpredictable behavior of the Receiver responsible for winding down DCEH. These challenges have added significant new costs to the transition process; costs that All’s had not anticipated at the outset of the transaction.

Nonetheless, thanks to the commitment and hard work of everyone at The Art Institutes and the support of our servicing partner, Studio, we remain confident that the AI Schools will emerge stronger than ever.

## Current Operations

Despite the well-publicized challenges, the AI Schools are operating well, maintaining their programs and services for their students.

Since the January 7<sup>th</sup> transaction we:

1. Graduated approximately 357 students.
2. Current enrollment approximately 4,500 students.
3. Employ 1,000 people (290 as full-time employees).

The AI Schools have reached approximately 99% of their budgeted enrollments for the winter start. We view this as a very positive achievement and confirmation of the strong demand for our programs and services, despite the challenges and negative publicity of recent months.

## Financial Performance

The All budgets, actual results through March 31, and projections for the remainder of this calendar year are attached and discussed below. As you can see, All has been operating at a cash deficit for extended periods and expects to remain in a cash deficit for most of this year. We offer these observations of the data attached:

1. Estimated Cash Receipts for the Quarter Ended 6/30/19 are \$20.7mm
2. Estimated Cash Operating Income for the Quarter Ended 6/30/19 \$0.9mm
3. Opening Cash Balance on 4/1/2019 was approximately \$0.8mm.
4. Our Cash Balance will go even lower for certain periods and is expected to remain low for the remainder of the year.
5. Title IV receipts from January 7, 2019 through March 31, 2019 have been \$16.7mm.
6. Title IV revenues for the entire fiscal year ending December 31, 2019 are projected to be \$70.3mm (prior to any refunds or returns).
7. All has been able to stay reasonably current on its other financial obligations but only because it has been able to defer payments of \$4.5mm to Studio as of March 31, 2019, as discussed further below.



## The Studio Relationship

All's relationship with Studio Enterprise Manager, LLC ("Studio") is strong and Studio is performing all services (sometimes more) required under the Master Services Agreement ("MSA"). There has been no interruption or diminution whatsoever in the Studio services which are essential to the near-term and long-term health of the AI Schools.

Studio has continued to provide services and support to the AI Schools despite the inconsistency and lack of expected payments due under the MSA. Since January 7 through March 31, Studio has deferred approximately \$2mm of service fees that otherwise would be due and advanced \$2.5mm of working capital to All.

The plan to migrate services away from DCEH is progressing, despite the chronic problems of working with the Receiver on these issues.

1. May 1, 2019 -- Studio to take control of the centralized data center in Pittsburgh, under a sublease with DCEH;
2. May 1, 2019 -- All expects to have completed hiring DCEH employees that have been tasked with delivering services to All and the AI Schools.
3. May 1, 2019 -- Studio expects to have completed hiring DCEH employees that have provided centralized information technology services to the AI Schools and South.
4. A combination of All, the AI Schools or Studio have already assumed direct responsibility for such functions as finance, treasury and management of the AI Schools' SEVIS and VA programs. Accreditation matters have already been moved to the institutional level.

We emphasize these points because they demonstrate All's and Studio's determination to execute on their original plan as developed in 2018 and discussed with the Department in December 2018. The goal was to establish a servicing relationship that would revive and strengthen the ongoing Art Institutes, enabling the AI Schools to go forward and serve their students and communities. All and Studio remain on track to achieve total separation and independence from DCEH and its legacy systems by July 2019. The receivership, and the conduct of this Receiver, have

placed inordinate expense and operational challenges on All beyond anything that we could have predicted. The achievement of total separation from DCEH (under the control of the Receiver) in the relatively near future is expected to greatly improve All's operations and financial position.

### Letter of Credit

This information is directly relevant to our request regarding the Department's requirement that All post an LOC of \$6.5 million. The Department has agreed to allocate \$6.5 million of its current LOC cash (derived from the October 2017 draw on the LOC posted by the former owner) for the benefit of All. We believe this existing LOC cash is adequate to support all pre-closing liabilities and the current Title IV funding for the AI School students

As noted above, the expected Title IV funding for the AI Schools for the current fiscal year is \$70.3mm (prior to refunds or returns). On that basis, the 10% coverage ratio would result in an LOC of \$7.03mm.

As noted above, Studio has offered financial support by advancing working capital loans and deferring monthly fees for services in the total amount of roughly \$4.5mm. Studio has advised us that it will continue providing services and working capital in order to achieve a successful separation from DCEH.

In addition, All has had to absorb large, unexpected expenses, totaling more than \$2.2mm through March 31, 2019, and projected to be \$4.0mm for the year ending December 31, 2019, due to the conduct of the Receiver and DCEH. These include additional expenses to pay back rent, cover overdue payments to vendors, and provide new surety for landlords, all of which DCEH had been expected to cover. When DCEH did not or could not do so, All had no choice but to dedicate its scarce cash to maintain these essential services to keep the AI Schools operating properly.

We believe everyone will benefit if All continues to dedicate its resources to the turnaround of the schools since the Department has already allocated its additional LOC cash to provide coverage during this transitional period.

Accordingly, this is to request that the Department consider that:

- (i) the LOC for the AI Schools will be a maximum of 10% of the \$70.3mm in Title IV funds that AI Schools are expected to receive in calendar year 2019,
- (ii) the Department will allocate \$6.5 million of its pre-existing LOC cash toward this requirement first,
- (iii) All will provide an LOC equal to the increment above the Department's \$6.5 million contribution necessary to reach the 10% requirement, or up to \$530,000,
- (iv) the incremental LOC will be filed by May 15, 2019, which is 75 days from the date the balance sheet was filed.

\*\*\*\*\*

We appreciate your immediate attention and your continued courtesies with respect to this LOC matter. As noted above, we also ask for the opportunity to come to Washington, D.C. to meet and provide more information to you on this subject.

Sincerely,

(b)(6)

Claude Brown  
Chancellor  
The Arts Institutes International, LLC

cc: Diane Jones, ED  
Michael Frola, ED

Enclosures  
Data for Department of Education, excel spreadsheet

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<b>Total Due</b>	<b>Payment Date</b>	<b>Amount</b>
300,000.00	1/24/2019	(300,000.00)
956,497.00	1/16/2019	(956,497.00)
1,204,701.34	2/8/2019	(1,204,701.34)
300,000.00	2/20/2019	(300,000.00)
421,872.00		
400,275.00		
-		
-		
-		
3,822,772.00	1/16/2019	(1,000,000.00)
-		
-		
-		
-		
46,868.43		
52,048.57		
(128,815.92)		
-		
-		
-		
-		
-		
-		
-		
7,376,218.42		(3,761,198.34)

6,707,275.46

Bank	Account Number	Account Name
Bank of America	(b)(4)	AI CORPORATE CONTROLLED DISBURSEMENT
Bank of America		DC ART INSTITUTE OF ATLANTA LLC LOCAL OPERATING
Bank of America		DC ART INSTITUTE OF VIRGINIA BEACH LLC LOCAL OP
Bank of America		ART INSTITUTE OF HOUSTON LLC LOCAL OPERATING
Bank of America		DC ART INSTITUTE OF AUSTIN LLC LOCAL OPERATING
Bank of America		DC ART INSTITUTE OF DALLAS LLC LOCAL OPERATING
Bank of America		DC ART INSTITUTE OF SAN ANTONIO LLC LOCAL OP
Bank of America		DC ART INSTITUTE OF TAMPA LLC Local Operating
Bank of America		DC MIAMI INTERNATIONAL UNIVERSITY LLC LOCAL OP
Bank of America		DC MIAMI INTERNATIONAL UNIVERSITY LLC PERKINS
Bank of America		DC ART INSTITUTE OF ATLANTA LLC PERKINS
Bank of America		ART INSTITUTE OF HOUSTON LLC PERKINS
Bank of America		AI MIAMI STATE GRANT
Bank of America		AI ATLANTA STATE GRANT
Bank of America		AI VIRGINIA BEACH STATE GRANT
Bank of America		AI AUSTIN,HOUSTON, SAN ANTONIO STATE GRANT
Bank of America		DC MIAMI INTERNATIONAL UNIVERSITY LLC EDPAYMENTS
Bank of America		ART INSTITUTE OF HOUSTON LLC THE Federal Funds Ed
Bank of America		DC ART INSTITUTE OF ATLANTA LLC EDPAYMENTS
Bank of America		THE ART INSTITUTES INTERNATIONAL LLC VA DEPOSITORY
Bank of America		THE ART INSTITUTES INTERNATIONAL LLC DONATIONS
Bank of America		THE ART INSTITUTES INTERNATIONAL LLC LOCAL OP
Bank of America		THE ART INSTITUTES INTERNATIONAL LLC PRIVATE FUNDS
Bank of America		THE ART INSTITUTES INTERNATIONAL LLC TUITION OP
SSB Bank		AI CONTROLLED DISBURSEMENT
SSB Bank		AI ATLANTA EDPAY ACCOUNT
SSB Bank		AI MIAMI EDPAY ACCOUNT
SSB Bank		AI HOUSTON EDPAY ACCOUNT
SSB Bank		DC ART INSTITUTE OF DALLAS LLC - CHECKING
SSB Bank		DC ART INSTITUTE OF VIRGINIA BEACH - CHECKING
SSB Bank		DC ART INSTITUTE OF TAMPA LLC - CHECKING
SSB Bank		DC ART INSTITUTE OF SAN ANTONIO LLC - CHECKING
SSB Bank		DC ART INSTITUTE OF AUSTIN LLC - CHECKING
SSB Bank		DC MIAMI INTERNATIONAL UNIVERSITY O - CHECKING
SSB Bank		DC MIAMI INTERNATIONAL UNIVERSITY O - CHECKING
SSB Bank		DC MIAMI INTERNATIONAL UNIVERSITY O - CHECKING
SSB Bank		DC ART INSTITUTE OF ATLANTA LLC - CHECKING
SSB Bank	(b)(4)	DC ART INSTITUTE OF ATLANTA LLC - CHECKING
SSB Bank		DC ART INSTITUTE OF ATLANTA LLC - CHECKING
SSB Bank		THE ART INSTITUTE OF HOUSTON, LLC - CHECKING
SSB Bank		THE ART INSTITUTE OF HOUSTON, LLC - CHECKING
SSB Bank		THE ART INSTITUTE OF HOUSTON, LLC - CHECKING
SSB Bank		DC ART INSTITUTE OF VIRGINIA BEACH - CHECKING
SSB Bank		All VA Account
SSB Bank		All Concentration Account

<i>Bank of America</i>		<i>Total</i>
<i>SSB Bank</i>		<i>Total</i>
<i>All</i>		<i>Total</i>
<i>Restricted</i>		<i>Total</i>
<i>Available</i>		<i>Total</i>

Total available net of payments



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**THE ANTI-ONSIVITE**

**Puffer, Rhonda**

---

**From:** Puffer, Rhonda  
**Sent:** Wednesday, May 8, 2019 1:23 PM  
**To:** Mangold, Donna; Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Cc:** Crim, Susan; Hochhalter, Kathleen  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)  
**Attachments:** Pending Closed School Discharges - EDMC, DCEH and EPF.xlsx; Funding DCEH 17-18.xlsx

Donna-

(b)(5)

Rhonda

(b)(5)

- 
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- 

(b)(5)

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**From:** Mangold, Donna

**Sent:** Tuesday, May 07, 2019 6:51 PM

**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Puffer, Rhonda; Finley, Steve

**Cc:** Crim, Susan; Hochhalter, Kathleen

**Subject:** USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Sorry -- (b)(5) It's in here now.

---

**From:** Mangold, Donna

**Sent:** Tuesday, May 7, 2019 7:44 PM

**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>

**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>

**Subject:** FW: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Here is a draft of the letter back to Tony Guida (I have also attached his incoming again). (b)(5)

(b)(5)

(b)(5)

(b)(5)

Thanks! (and of course, while we were meeting today Tony was e-mailing me about our response)

---


**From:** Guida, Tony <[TGuida@duanemorris.com](mailto:TGuida@duanemorris.com)>  
**Sent:** Friday, April 26, 2019 4:14 PM  
**To:** Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>  
**Cc:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; 'Anthony Lee' <[alee@westcliff.edu](mailto:alee@westcliff.edu)>; Mark Dottore <[mark@dottoreco.com](mailto:mark@dottoreco.com)>; 'Nemer, Charles A.' <[CAN@mccarthylebit.com](mailto:CAN@mccarthylebit.com)>  
**Subject:** Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Donna,

Attached is a letter with respect to the above-described proposed transaction.

If you have any questions, please let me know.

Tony



---

[www.duanemorris.com](http://www.duanemorris.com)

**Anthony J. Guida Jr.**  
Partner

Duane Morris LLP	P: +1 619 744 2256
750 B Street, Suite 2900	F: +1 619 923 2489
San Diego, CA 92101-4681	C: +1 714 980 1579

[E-MAIL](#) | [BIO](#) | [VCARD](#)

For more information about Duane Morris, please visit <http://www.DuaneMorris.com>

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of the Freedom of Information and Privacy Act



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of the Freedom of Information and Privacy Act





Jones, Diane

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**From:** Jones, Diane  
**Sent:** Wednesday, May 8, 2019 4:01 PM  
**To:** Bennett, Ron; Sikora, Tara; Mangold, Donna; Puffer, Rhonda; Minor, Robin; Frola, Michael; Finley, Steve  
**Cc:** Crim, Susan; Hochhalter, Kathleen  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

(b)(5)

---

**From:** Bennett, Ron <Ron.Bennett@ed.gov>  
**Sent:** Wednesday, May 8, 2019 3:50 PM  
**To:** Sikora, Tara <Tara.Sikora@ed.gov>; Mangold, Donna <Donna.Mangold@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

(b)(5)

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**From:** Sikora, Tara <Tara.Sikora@ed.gov>  
**Sent:** Wednesday, May 8, 2019 1:53 PM  
**To:** Mangold, Donna <Donna.Mangold@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

(b)(5)

We can discuss tomorrow, but I thought it was worth mentioning so we had time to consider this as an option.

Tara

---

**From:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Sent:** Wednesday, May 8, 2019 1:33 PM  
**To:** Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

(b)(5)

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**Sent:** Wednesday, May 8, 2019 1:23 PM  
**To:** Mangold, Donna <Donna.Mangold@ed.gov>; Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** RE: USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Donna-

(b)(5)

Please let me know if have questions.

Rhonda

(b)(5)

(b)(5)

(b)(5)

(b)(5)

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**Sent:** Tuesday, May 07, 2019 6:51 PM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Puffer, Rhonda; Finley, Steve  
**Cc:** Crim, Susan; Hochhalter, Kathleen  
**Subject:** USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Sorry --(b)(5)

---

**From:** Mangold, Donna  
**Sent:** Tuesday, May 7, 2019 7:44 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Bennett, Ron <[Ron.Bennett@ed.gov](mailto:Ron.Bennett@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; Sikora, Tara <[Tara.Sikora@ed.gov](mailto:Tara.Sikora@ed.gov)>; Puffer, Rhonda <[Rhonda.Puffer@ed.gov](mailto:Rhonda.Puffer@ed.gov)>; Finley, Steve <[Steve.Finley@ed.gov](mailto:Steve.Finley@ed.gov)>  
**Cc:** Crim, Susan <[Susan.Crim@ed.gov](mailto:Susan.Crim@ed.gov)>; Hochhalter, Kathleen <[Kathleen.Hochhalter@ed.gov](mailto:Kathleen.Hochhalter@ed.gov)>  
**Subject:** FW: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

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(b)(5)

(b)(5)

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---


**From:** Guida, Tony <[TGuida@duanemorris.com](mailto:TGuida@duanemorris.com)>  
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**To:** Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>  
**Cc:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; 'Anthony Lee' <[alee@westcliff.edu](mailto:alee@westcliff.edu)>; Mark Dottore <[mark@dottoreco.com](mailto:mark@dottoreco.com)>; 'Nemer, Charles A.' <[CAN@mccarthylebit.com](mailto:CAN@mccarthylebit.com)>  
**Subject:** Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Donna,

Attached is a letter with respect to the above-described proposed transaction.

If you have any questions, please let me know.

Tony



---

[www.duanemorris.com](http://www.duanemorris.com)

**Anthony J. Guida Jr.**  
Partner

Duane Morris LLP	<b>P:</b> +1 619 744 2256
750 B Street, Suite 2900	<b>F:</b> +1 619 923 2489
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**Mangold, Donna**

---

**From:** Mangold, Donna  
**Sent:** Thursday, May 9, 2019 5:39 PM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Puffer, Rhonda; Finley, Steve  
**Cc:** Crim, Susan; Hochhalter, Kathleen  
**Subject:** UPDATED DRAFT RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)  
**Attachments:** DSM to T. Guida (WSCL and Westcliff).docx

(b)(5)

Mike, I did the letter for your signature & will alert Guida that although I am out, it is under internal review and he can expect to hear from us soon. (He keeps e-mailing me for updates).

---

**From:** Mangold, Donna  
**Sent:** Tuesday, May 7, 2019 7:51 PM  
**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Sorry - (b)(5) It's in here now.

---

**From:** Mangold, Donna  
**Sent:** Tuesday, May 7, 2019 7:44 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Bennett, Ron <[Ron.Bennett@ed.gov](mailto:Ron.Bennett@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; Sikora, Tara <[Tara.Sikora@ed.gov](mailto:Tara.Sikora@ed.gov)>; Puffer, Rhonda <[Rhonda.Puffer@ed.gov](mailto:Rhonda.Puffer@ed.gov)>; Finley, Steve <[Steve.Finley@ed.gov](mailto:Steve.Finley@ed.gov)>  
**Cc:** Crim, Susan <[Susan.Crim@ed.gov](mailto:Susan.Crim@ed.gov)>; Hochhalter, Kathleen <[Kathleen.Hochhalter@ed.gov](mailto:Kathleen.Hochhalter@ed.gov)>  
**Subject:** FW: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Here is a draft of the letter back to Tony Guida (I have also attached his incoming again). (b)(5)

(b)(5)

(b)(5)





Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act

Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act

Withheld pursuant to exemption

(b)(5)

of the Freedom of Information and Privacy Act

**Jones, Diane**

---

**From:** Jones, Diane  
**Sent:** Thursday, May 9, 2019 9:48 PM  
**To:** Mangold, Donna; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Puffer, Rhonda; Finley, Steve  
**Cc:** Crim, Susan; Hochhalter, Kathleen  
**Subject:** RE: UPDATED DRAFT RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

This looks great, Donna! Thanks for all of your work on this!  
Diane

---

**From:** Mangold, Donna <Donna.Mangold@ed.gov>  
**Sent:** Thursday, May 9, 2019 5:39 PM  
**To:** Jones, Diane <Diane.Jones@ed.gov>; Minor, Robin <Robin.Minor@ed.gov>; Bennett, Ron <Ron.Bennett@ed.gov>; Frola, Michael <Michael.Frola@ed.gov>; Sikora, Tara <Tara.Sikora@ed.gov>; Puffer, Rhonda <Rhonda.Puffer@ed.gov>; Finley, Steve <Steve.Finley@ed.gov>  
**Cc:** Crim, Susan <Susan.Crim@ed.gov>; Hochhalter, Kathleen <Kathleen.Hochhalter@ed.gov>  
**Subject:** UPDATED DRAFT RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

I spoke with Diane and I have updated the draft letter to Tony Guida – which is attached in redline from the prior

(b)(5)

Mike, I did the letter for your signature & will alert Guida that although I am out, it is under internal review and he can expect to hear from us soon. (He keeps e-mailing me for updates).

---

**From:** Mangold, Donna  
**Sent:** Tuesday, May 7, 2019 7:51 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Bennett, Ron <[Ron.Bennett@ed.gov](mailto:Ron.Bennett@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; Sikora, Tara <[Tara.Sikora@ed.gov](mailto:Tara.Sikora@ed.gov)>; Puffer, Rhonda <[Rhonda.Puffer@ed.gov](mailto:Rhonda.Puffer@ed.gov)>; Finley, Steve <[Steve.Finley@ed.gov](mailto:Steve.Finley@ed.gov)>  
**Cc:** Crim, Susan <[Susan.Crim@ed.gov](mailto:Susan.Crim@ed.gov)>; Hochhalter, Kathleen <[Kathleen.Hochhalter@ed.gov](mailto:Kathleen.Hochhalter@ed.gov)>  
**Subject:** USE THIS DRAFT INSTEAD RE: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Sorry - (b)(5)

---

**From:** Mangold, Donna  
**Sent:** Tuesday, May 7, 2019 7:44 PM  
**To:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Minor, Robin <[Robin.Minor@ed.gov](mailto:Robin.Minor@ed.gov)>; Bennett, Ron <[Ron.Bennett@ed.gov](mailto:Ron.Bennett@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; Sikora, Tara <[Tara.Sikora@ed.gov](mailto:Tara.Sikora@ed.gov)>; Puffer, Rhonda <[Rhonda.Puffer@ed.gov](mailto:Rhonda.Puffer@ed.gov)>; Finley, Steve <[Steve.Finley@ed.gov](mailto:Steve.Finley@ed.gov)>

Cc: Crim, Susan <[Susan.Crim@ed.gov](mailto:Susan.Crim@ed.gov)>; Hochhalter, Kathleen <[Kathleen.Hochhalter@ed.gov](mailto:Kathleen.Hochhalter@ed.gov)>

Subject: FW: Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Here is a draft of the letter back to Tony Guida (I have also attached his incoming again) (b)(5)

(b)(5)

Thanks! (and of course, while we were meeting today Tony was e-mailing me about our response)

---

**From:** Guida, Tony <[TGuida@duanemorris.com](mailto:TGuida@duanemorris.com)>

**Sent:** Friday, April 26, 2019 4:14 PM

**To:** Mangold, Donna <[Donna.Mangold@ed.gov](mailto:Donna.Mangold@ed.gov)>

**Cc:** Jones, Diane <[Diane.Jones@ed.gov](mailto:Diane.Jones@ed.gov)>; Frola, Michael <[Michael.Frola@ed.gov](mailto:Michael.Frola@ed.gov)>; 'Anthony Lee' <[alee@westcliff.edu](mailto:alee@westcliff.edu)>; Mark Dottore <[mark@dottoreco.com](mailto:mark@dottoreco.com)>; 'Nemer, Charles A.' <[CAN@mccarthylebit.com](mailto:CAN@mccarthylebit.com)>

**Subject:** Westcliff University (OPE ID 04249600) acquisition of assets of Western State College of Law (OPE ID 021799-37)

Donna,

Attached is a letter with respect to the above-described proposed transaction.

If you have any questions, please let me know.

Tony



---

[www.duanemorris.com](http://www.duanemorris.com)

**Anthony J. Guida Jr.**  
Partner

Duane Morris LLP                      **P:** +1 619 744 2256  
750 B Street, Suite 2900              **F:** +1 619 923 2489  
San Diego, CA 92101-4681              **C:** +1 714 980 1579

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## Mangold, Donna

---

**From:** Mangold, Donna  
**Sent:** Monday, June 3, 2019 10:33 AM  
**To:** Jones, Diane; Minor, Robin; Bennett, Ron; Frola, Michael; Sikora, Tara; Finley, Steve  
**Subject:** FW: Group Discharge for Illinois Institute of Art and Art Institute Colorado students  
**Attachments:** Letter to ED Re Group Discharge for Illinois Institute of Art and Art Institute Colorado students.pdf; Ex A 2019-5-10 Stipulations.pdf; Ex B 2018-12-3 DCEH Administrator THIRD REPORT.PDF; Ex C Ai CO Catalog and Addendum Spring 2018.pdf; Ex C Ai ILIA Catalog and Addendum Spring 2018.pdf; EX D Ai Colorado EA 03\_07\_2018.pdf; Ex D Ai ILIA -Chicago EA 03\_07\_2018.pdf; Ex D Ai ILIA Schaumburg EA 03\_07\_2018.pdf; Ex E 050919 Letter.pdf; Ex F EDMC Consent Judgment.pdf; Ex G 2019-5-10 Administrator May Position Statement.pdf; Ex I cash flow statement.pdf; Ex H 2019 AiCO AiLL Student List Jan 20 - June 15.xlsx

FYI – not sure how he got my name – but probably through NSLDN. I will send on to Colleen Nevin.

---

**From:** Sanders, Joseph <JSanders@atg.state.il.us>  
**Sent:** Monday, June 3, 2019 8:03 AM  
**To:** DeVos, Betsy <Betsy.DeVos@ed.gov>; Brown, Mark <Mark.Brown@ed.gov>; Appel, Jeff <Jeff.Appel@ed.gov>; Mangold, Donna <Donna.Mangold@ed.gov>  
**Cc:** Jones, Gregory <GJones@atg.state.il.us>; 'Mark Bailey' <Mark.Bailey@coag.gov>  
**Subject:** Group Discharge for Illinois Institute of Art and Art Institute Colorado students

To Whom It May Concern:

Please see the attached correspondence regarding group discharge for Illinois Institute of Art and Art Institute Colorado students.

Feel free to contact me with any questions or concerns.

We look forward to your response.

Best Regards,

**Joseph Sanders**  
Student Loan Ombudsman  
Supervising Attorney  
Consumer Protection Division  
Illinois Attorney General's Office



100 W Randolph St., 12<sup>th</sup> Fl.  
Chicago, IL 60601  
312-814-6796

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

DIGITAL MEDIA SOLUTIONS, LLC,	)	
	)	Case No. 1:19-cv-00145
<i>Plaintiff,</i>	)	
	)	Judge Dan Aaron Polster
v.	)	
	)	Magistrate Judge Thomas M. Parker
SOUTH UNIVERSITY OF OHIO, LLC <i>et al.</i> ,	)	
	)	<b><u>STIPULATED FACTS</u></b>
<i>Defendants.</i>	)	<b><u>REGARDING DISCLOSURES</u></b>
	)	<b><u>OF ACCREDITATION STATUS</u></b>
	)	<b><u>AT THE ILLINOIS INSTITUTE</u></b>
	)	<b><u>OF ART AND THE ART</u></b>
	)	<b><u>INSTITUTE OF COLORADO</u></b>

WHEREAS, on January 18, 2019, Mark E. Dottore (the “Receiver”) was appointed by the U.S. District Court for the Northern District of Ohio (the “Court”) to be the receiver for, among other entities, Dream Center Education Holdings LLC (“Dream Center”), The Art Institute of Colorado LLC (“AI-Colorado”), and The Illinois Institute of Art LLC (“AI-Illinois”);<sup>1</sup>

WHEREAS, among the responsibilities of the Receiver under the order appointing him are “possession, control, management, operation and charge” of Dream Center, AI-Colorado, and AI-Illinois;<sup>2</sup>

WHEREAS, the Receiver has “the authority to operate and manage the Receivership Entities ... as he deems prudent in his sole discretion”;<sup>3</sup>

---

<sup>1</sup> Order Appointing Receiver, *Digital Media Solutions, LLC v. South University of Ohio, LLC*, No. 1:19-cv-145, Dkt. No. 8 (“Receivership Order”).

<sup>2</sup> Receivership Order at 4.

<sup>3</sup> Receivership Order at 6.

WHEREAS, Dream Center is currently subject to Consent Judgments with 40 Attorneys General, including in *Kentucky v. Education Management Corporation*, No. 15-CI-1202 (Ky. Cir. Ct. Nov. 16, 2015);

WHEREAS, Dream Center's compliance with those Consent Judgments is overseen by Settlement Administrator Thomas J. Perrelli (the "Settlement Administrator");

WHEREAS, the Settlement Administrator conducted a thorough investigation of the facts stipulated below and has provided the results of the investigation to the Receiver;

WHEREAS, the Settlement Administrator found the facts stipulated to below to constitute a violation of the Consent Judgment;

WHEREAS, Dream Center has acknowledged that it did not disclose appropriately and in a timely manner the change in accreditation status, and has acknowledged the need for reparations for those students impacted during the time period when the accreditation status was not accurately disclosed; and

WHEREAS, exercising his business judgment, the Receiver has not identified a reasonable basis for contesting the facts stipulated below;

THEREFORE, the Settlement Administrator and Receiver stipulate to the following facts as true:

1. Accreditation is essential for students to transfer credits to other schools and for potential employers to recognize degrees.
2. On January 20, 2018, a Change of Control from Education Management Corporation to Dream Center Educational Holdings (Dream Center) took effect. As a result of this change, the Higher Learning Commission (HLC) placed The Art Institute of Colorado (AI-Colorado), The Illinois Institute of Art (AI-Illinois), and additional Dream Center locations accredited by HLC, in a Change of Control Candidacy for Accreditation Status.
3. Dream Center knew that HLC's January 20, 2018 action was concerning because the Change of Control Candidacy for Accreditation Status meant that HLC had removed AI-Illinois's and AI-Colorado's accredited status.

4. Despite the Candidacy Status, AI-Illinois and AI-Colorado continued to be eligible for Title IV Federal Financial Aid based on their application to the Department of Education for non-profit status and the Change of Control Candidacy Status through HLC. Dream Center continued operations and did not inform enrolled students, prospective students, or enrolling students about the loss of institutional accreditation at AI-Illinois and AI-Colorado.
5. Following HLC's January 20, 2018 action, the accreditation disclosures for AI-Illinois and AI-Colorado, which Dream Center posted on the website for its Art Institutes schools, read in relevant part "The [AI-Illinois or AI-Colorado] is in transition during a change of ownership. We remain accredited as a candidate school seeking accreditation under new ownership and our new non-profit status."
6. It is not true that AI-Illinois and AI-Colorado "remain[ed] accredited" following HLC's January 20, 2018 action.
7. In June 2018, Dream Center finally told students at AI-Illinois and AI-Colorado that their schools had not been accredited since January 20.
8. DCEH and its Institutions recognize the issues with not disclosing appropriately and in a timely manner the change in accreditation status back on January 20, 2018.
9. DCEH and its Institutions also recognize the need for restitution for the approximately 1,494 students impacted during the time period between January 20, 2018 and June 15, 2018 when the accreditation status was not disclosed.

DATED: May 2, 2019

For the Receiver:  
(b)(6)

Mark Dottore  
Receiver  
Dottore Companies, LLC

DATED: May 2, 2019

For the Settlement Administrator:  
(b)(6)

Thomas J. Perrelli  
Settlement Administrator  
Jenner & Block LLP

THIRD ANNUAL REPORT  
OF THE SETTLEMENT ADMINISTRATOR  
UNDER THE  
CONSENT JUDGMENTS WITH  
EDUCATION MANAGEMENT CORPORATION  
(EDMC) AS SUCCEEDED BY  
DREAM CENTER EDUCATION HOLDINGS

Thomas J. Perrelli  
Settlement Administrator  
Jenner & Block LLP  
1099 New York Avenue, NW  
Washington, DC 20001

October 1, 2017 – September 30, 2018

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## EDMC – Third Settlement Administrator Report Outline

### I. INTRODUCTION

#### A. Consent Judgment and Administrator

This is the Third Annual Report prepared by the Settlement Administrator in connection with the 2015 settlements between Education Management Corporation (“EDMC”) and 39 individual states and the District of Columbia (collectively, “the Consent Judgment”) to resolve consumer protection claims arising out of EDMC’s recruitment and enrollment practices. It is also the first report that describes the company’s operations and compliance efforts under entirely new management: In October 2017, EDMC sold substantially all of EDMC’s assets to Dream Center Education Holdings, LLC (“DCEH”), an educational affiliate of the Dream Center Foundation (“Dream Center”),<sup>1</sup> a Los Angeles-based non-profit organization that provides a variety of social and religious services to individuals in difficult situations.

The Consent Judgment imposes a variety of terms that bound EDMC and that now bind DCEH.<sup>2</sup> Some of the terms required action in a compressed period of time, like the Consent Judgment’s requirement that the company forgive the institutional debts of certain students within 90 days of the Consent Judgment’s effective date.<sup>3</sup> Other requirements require the company to provide certain consumer protections for periods of seven years, like maintaining a call monitoring system,<sup>4</sup> or twenty years, like providing a single-page disclosure sheet that provides specified information to prospective students.<sup>5</sup>

The Consent Judgment specifies that the Administrator’s term is to last three years,<sup>6</sup> but the Attorneys General may extend that term for up to two additional years if there is “a failure by [DCEH] to achieve and maintain substantial compliance with the substantive provisions of the Consent Judgment.”<sup>7</sup> This Report is the Administrator’s third and final report of the three-year term, and is based on the monitoring of calls recorded in the admissions process, reviews of marketing material, job data, and other materials, rounds of formal employee interviews in May and August 2018, ongoing discussions with compliance personnel, reviews by third-party consultants, participation in EDMC trainings, observations of team meetings, and mystery shops. At times during the course of this Consent Judgment, the Administrator has also received unsolicited information from individuals involved with the company or its schools, through the Administrator’s website, complaints forwarded by State Attorneys General, and other channels, and the Administrator has investigated issues arising from that information.

---

<sup>1</sup> Dream Center Education Holdings, LLC, is the affiliate that acquired the schools in the transaction, which closed October 17, 2017.

<sup>2</sup> See Consent Judgment ¶ 134.

<sup>3</sup> Consent Judgment ¶¶ 120-21.

<sup>4</sup> Consent Judgment ¶ 95.

<sup>5</sup> Consent Judgment ¶¶ 56, 124.

<sup>6</sup> Consent Judgment ¶ 38.

<sup>7</sup> Consent Judgment ¶ 49.



## **B. Summary of Findings**

### **1. The Transition to DCEH**

As described in prior reports, the first year of the Consent Judgment was characterized by significant investment in compliance infrastructure and efforts at pushing that infrastructure and a revamped culture of compliance into the outer reaches of a large and diffuse organization. In the second year of the Consent Judgment, progress somewhat stagnated: EDMC was clearly struggling financially and preparing to be sold; while the company was largely able to maintain the status quo, it was unable to invest in new initiatives, and senior compliance personnel left in advance of a transition.

This third year has been dominated by a major shift in compliance culture and approach from DCEH and its new management. The Dream Center Foundation has described the new educational endeavor as an expansion of the services that the Foundation provides to individuals in transition, and consistent with that mission, is transitioning the schools from for-profit to non-profit status. That transition is being overseen a management team with a history of for-profit endeavors. DCEH leadership is clearly driven to save what they believe to be a business at serious risk of failure – one they believe to be worse off than they expected or were led to understand at the acquisition – and have found limited capital available to invest in its long-term compliance future.

With respect to the core issues of compliance at the heart of the Consent Judgment, the third year has been characterized by two distinct periods: a very rocky period in the first half of the year, raising new and troubling issues, followed by signs of improvement after a restructuring of the compliance team in August and September 2018. Had that significant change of direction not occurred, the Administrator has no doubt that the conclusions of this report would be dire. Since August, there have been positive signs of improvement, but the critical question is whether DCEH leadership will support continued compliance improvements going forward.

The goal of the Consent Judgment no doubt was to bring about significant compliance reforms at EDMC that would last far beyond the term of the Settlement Administrator. There have been important changes that have eliminated or at least reduced the incidence of consumer protection issues that led the state Attorneys General to begin investigating in the first place. But the company is at an inflection point; there remains real uncertainty about whether the progress it has made will continue into the future or whether the company, under DECH's leadership, will backslide.

### **2. Results**

The change in management has brought several changes in results.

*Call monitoring.* First, there is one area in which the new management has not changed EDMC's prior results, and which is an unqualified success of the Consent Judgment: DCEH has maintained the call monitoring system required by the Consent Judgment, randomly listens to a meaningful number of calls to identify violations and training opportunities, and has, for the most part, eliminated the incidence of high-pressure, abusive, or deceptive sales tactics that characterized EDMC and the industry in the years prior to the Consent Judgment. With

occasional inaccuracies that are best described as isolated, admissions and financial services representatives are providing accurate, comprehensive information to the prospective students whom they are attempting to enroll.<sup>8</sup> The call monitoring system is a critical component of the compliance architecture, and the focus of the state Attorneys General on that system has paid significant dividends.

Other infrastructure investments required by the Consent Judgment have also been beneficial. Prospective students are in a position to make better-informed decisions as a result of the Single-Page Disclosure Sheets<sup>9</sup> and Electronic Financial Impact Portal<sup>10</sup> that EDMC and DCEH have made available. And early in the Consent Judgment, EDMC successfully implemented the institutional debt forgiveness program that the Consent Judgment required.<sup>11</sup>

Outside these areas, however, the third year of the Consent Judgment has raised new and problematic issues that could not easily be addressed through training, job aids, and modifications to policies and procedures. As discussed further below, the Administrator identified three incidents constituting substantial non-compliance with the Consent Judgment and requiring corrective action plans.

*Woz U.* In March 2018, DCEH’s Art Institutes announced a partnership with a for-profit educational entity – also controlled by DCEH leadership – called Woz U. The partnership contemplated a 12-week, full-time, intensive software coding “boot camp” under the Woz U brand. From a Consent Judgment perspective, DCEH provided or endorsed misleading information to prospective students regarding the nature of the partnership (whether an Ai program or something else), the status that completers of the Woz U boot camp would obtain (whether “graduates” or something else), and the job placement successes that previous completers had enjoyed. Apart from the Consent Judgment, the arrangement raised questions about DCEH leadership’s use of their new company’s *non-profit* status to benefit their separate *for-profit* projects. Ultimately, DCEH agreed that it would not proceed with Woz U. It is now separately developing a different suite of “boot camp” offerings, developed entirely in-house.<sup>12</sup>

*Gainful Employment.* Department of Education regulations require that for-profit schools provide significantly more disclosures than non-profit schools, including clear and conspicuous warnings for degree programs that fail to meet minimum “Gainful Employment” requirements. While DCEH is organized as a non-profit entity for tax purposes, the Department of Education had not approved the transition to non-profit status for Department of Education regulatory purposes. Accordingly, DCEH should have been making all of the Gainful Employment disclosures – including clear warnings for programs that had failed – required of for-profit schools. While aware of its formal regulatory position as a for-profit school, DCEH elected to make the narrower disclosures required of non-profit schools. DCEH explained that it did so because the Department of Education had signaled that it *would* approve the transition to non-profit status, making enforcement against DCEH unlikely for making only the narrower

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<sup>8</sup> More information regarding DCEH’s call monitoring capabilities is available beginning on page 17, below.

<sup>9</sup> More information regarding the Single-Page Disclosure Sheets is available beginning on page 38, below.

<sup>10</sup> More information regarding the Electronic Financial Impact Portal is available beginning on page 58, below.

<sup>11</sup> More information regarding the institutional debt forgiveness program is available beginning on page 56, below.

<sup>12</sup> More information regarding the Woz U issue is available beginning on page 21, below.

disclosures during the transition. DCEH ultimately agreed to post all of the disclosures required of for-profit schools, pending a decision by the Department of Education.<sup>13</sup>

*Accreditation Disclosures.* On January 20, 2018, the Higher Learning Commission (“HLC”) downgraded the status of the Illinois Institute of Art and the Art Institute of Colorado from “accredited” to “candidate” – a move that, in HLC practice, means that the schools were unaccredited. DCEH did not inform students that the schools had lost their accreditation for several months – during which time students registered for additional terms and incurred additional debts, for credits that were significantly less likely to transfer to other schools and towards a degree that was to have limited value. DCEH explained that it disagreed with and was appealing HLC’s decision, and hoped to have the accreditation reinstated retroactive to January 20. Whatever conclusions are reached regarding DCEH’s status under the Consent Judgment on other issues, DCEH should not be said to be in substantial compliance with the Consent Judgment until it completes the corrective actions necessary to resolve this issue.

While not itself a violation of the Consent Judgment, the “tone” that new DCEH management set upon arrival was also distinctly different from the tone set by the new management’s predecessors. DCEH leadership indicated that under EDMC, Risk and Compliance had too much influence on the business. The newly installed officer called a key compliance team, the Business Practices Committee, the “*Business Prevention Committee*” – in a meeting with the committee itself. The CEO accused the compliance team of being “the place where everything goes to die.” Employees who identified compliance questions and risks were not thanked, but accused of being obstructionist. The new tone was one that suggested compliance was a burden, not a critical element of the company’s mission.<sup>14</sup>

Concerns about these issues have been a topic of significant discussion between DCEH leadership and the Administrator. Importantly, there have been signs of improvement in DCEH’s compliance efforts over the final months of this review period. The company hired a new Senior Vice President of Compliance and Regulatory Affairs, reporting to the General Counsel and the Chief Academic Excellence Officer. The company has begun working more proactively to raise compliance issues. Where the company had initially, and implausibly, denied violating relevant requirements, DCEH has begun implementing corrective action plans. And the company’s new Chief Marketing Officer has developed plans to dramatically reduce DCEH’s reliance on some of the industry’s more problematic recruiting tactics.

The change in tone and attention to compliance following the restructuring was necessary. But the unevenness of DCEH’s commitment to compliance over the past year does not provide confidence that DCEH has truly turned the corner for the future. If the compliance team continues to operate as it has in the last few months and is given the freedom, authority, and support necessary to do its job, there is a basis for optimism.

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<sup>13</sup> More information regarding the Gainful Employment issue is available beginning on page 26, below.

<sup>14</sup> Issues regarding tone are addressed throughout the report, including in a focused discussion beginning on page 11, below.

### 3. Concerns Looking Forward

As this third review period comes to a close, it is worth looking ahead. There are a number of areas in which DCEH's recent history suggests that backsliding is at least a possibility.

First, notwithstanding improvements in recent months, DCEH's commitment to a culture of compliance is uncertain. While DCEH hired a senior compliance manager, many of the challenges over the past year have been driven by senior leadership; even the strongest Risk and Compliance department cannot change a company whose employees doubt the leadership's commitment to compliance. Time will tell whether the compliance team receives the institutional support that it needs, whether leadership promotes additional initiatives that are flawed from a compliance perspective, whether the organization resists them, and how leadership responds.

Second, DCEH is still in the process of completing a corrective action plan that the Administrator required for violation of the Consent Judgment. As a result of DCEH's failure to advise students that certain schools had lost their accreditation on January 20, certain students stayed in the unaccredited schools, incurring additional debts to obtain credits that were less likely to transfer or a degree that was worth less than they expected. The Administrator has asked DCEH to prepare a corrective action plan to assist the affected students. While DCEH is appealing the accreditation decision at issue, and a decision is unlikely before the Administrator's term expires on December 31, 2018, DCEH is aware that the Administrator will expect it to provide and complete a corrective action plan if the appeal is unsuccessful.

Third, DCEH announced in July 2018 that for financial reasons, it would be closing thirty of its schools. The closures would affect about half of DCEH's total schools and about a quarter of its total enrollment, and would have significant consequences for students. As DCEH encourages students at these teach-out locations to enroll in other DCEH schools, it must provide accurate and materially complete information to students. In the initial steps of the closures, the Administrator has worked to ensure that DCEH informs students at these schools of the Department of Education's Closed School Discharge program, through which students at closed schools who meet certain criteria can apply to have their federal loans forgiven. DCEH is still working to inform students at some of these schools of the actual date on which their schools will close, which can be a key piece of information for students considering applying for a Closed School Discharge. As the teach-outs proceed, the accurate and complete communication required by the Consent Judgment will be important in helping these students make the choices that are best for them.

Fourth, the issue of DCEH and its non-profit status will continue to require scrutiny. The abandoned Woz U initiative would have involved DCEH, the non-profit, making payments to a for-profit entity controlled by DCEH's own leadership. Perhaps it was a sensible business or educational arrangement, but the rationale for it was by no means clear, and the legal and appearance issues of personal benefit to the management of the non-profit were cause for serious concern. While DCEH decided not to move forward with the Woz U initiative, DCEH also indicated that it would consider other arrangements going forward, some of which might include

contracting with for-profit entities for substantial services. Such efforts in the future would merit close scrutiny by the Dream Center Foundation, the DCEH Board, and the Attorneys General.

Fifth, while one of the DCEH Consent Judgment's successes has been the accuracy of the data and nature of the discussions that DCEH representatives provide prospective students, there are reasons to be vigilant going forward. With respect to the data, there are concerns in the company that DCEH is not adequately investing in its data reporting infrastructure, and over time, the information will become less accurate. With respect to the nature of the discussions that admissions representatives have with students, the Administrator has been encouraged by the Risk and Compliance team's shift towards random call monitoring over this review period, and would want to see call monitoring proceed at present levels or higher.

Sixth, DCEH has laid out a three-year goal of nearly eliminating its use of third-party lead generators. These vendors are difficult to monitor and have caused compliance challenges for DCEH, EDMC, and others in the industry for years. DCEH's new Chief Marketing Officer believes that reducing its reliance on these vendors will give the company better control over how its brand is perceived, and lead to better, more cost-effective marketing. It is also worth noting that at schools that have eliminated the use of third-party lead generators entirely, they have saved substantially on the large compliance infrastructure that that marketing channel requires. Reducing reliance would be beneficial from a compliance perspective – but it is worth noting that at the beginning of the Consent Judgment, EDMC also laid out a three-year plan along similar lines. Reducing such reliance is difficult.

## **II. DCEH**

### **A. Consent Judgment Background**

#### **1. EDMC and the Consent Judgment**

At the time of the November 2015 Consent Judgment with the state Attorneys General, EDMC was one of the largest for-profit providers of post-secondary education in the country. Formerly a public company, EDMC had delisted from the NASDAQ in 2014, eighteen years after its first public offering. At the time of the Consent Judgment, EDMC claimed to manage 109 locations in 32 U.S. states and in Canada and serve over 90,000 students in its four separate brands, or systems: The Art Institutes (Ai), Argosy University, Brown Mackie College, and South University.

EDMC became the subject of several state investigations beginning in 2010. Over a two-and-a-half year period, EDMC received subpoenas from the Attorneys General of Florida, Kentucky, New York, Colorado, and Massachusetts.<sup>15</sup> The subpoenas were followed by requests for information from thirteen states in January 2014, with the Pennsylvania Attorney General's office serving as the states' principal point of contact.<sup>16</sup> Following more than a year of subsequent discussions, EDMC entered into a settlement with 39 states and the District of Columbia to resolve consumer protection claims arising out of its recruiting and enrollment

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<sup>15</sup> See Education Management Corporation, Form 10-K (Oct. 14, 2014) at 36.

<sup>16</sup> See Education Management Corporation, Form 10-K (Oct. 14, 2014) at 36.

practices. The settlement was resolved through nearly identical consent judgments entered in the various states,<sup>17</sup> referred to in this Report as the Consent Judgment.

The Consent Judgment appointed an independent Settlement Administrator to monitor EDMC's compliance with the Consent Judgment's requirements and issue annual reports. The Consent Judgment imposes requirements on EDMC and, as discussed below, successor companies for varying number of years: seven years of maintaining a call recording system,<sup>18</sup> twenty years of most other requirements.<sup>19</sup>

## 2. The Dream Center Transaction

At the beginning of this review period, EDMC closed a sale of substantially all of its assets to Dream Center Education Holdings, LLC ("DCEH"), an educational affiliate of the Dream Center Foundation ("Dream Center"),<sup>20</sup> a Los Angeles-based non-profit organization that provides a variety of social and religious services to individuals in difficult situations. DCEH announced that it would convert the EDMC schools into "community focused not-for-profit educational institutions" that, among other things, provide educational opportunities for Dream Center volunteers and the recipients of its services.<sup>21</sup> DCEH leadership has also discussed building a stronger connection between its programs and the private employers with whom DCEH hopes to place graduates, through redesigned academic offerings and partnerships with prospective employers.

That sale to DCEH is one part of an even longer period of transition. In the years since the Consent Judgment was entered, EDMC had sold or closed several of its schools, including the entire Brown Mackie system, and had been in the market for a purchaser for some period before the Dream Center announcement. From a compliance perspective, the period during this uncertainty meant that following significant initial investments at the Consent Judgment's beginning, there was little investment in proactive compliance initiatives and an otherwise effective compliance staff. This was the situation that DCEH faced when it acquired EDMC's assets.

### **B. DCEH**

#### 1. New Management

With the change in ownership came a change in management. DCEH installed a new leadership team. Its new CEO, Brent Richardson, had previously served as chairman and chief executive officer at Grand Canyon University, where he oversaw the school's conversion from non-profit to for-profit status, and ultimately to an initial public offering, and has had roles in

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<sup>17</sup> The various consent judgments all share identical requirements for the core provisions, although certain states also added additional provisions that apply specifically to that state. EDMC is implementing the Consent Judgment provisions in every state in which it operates, regardless of whether that state participated in the Consent Judgment.

<sup>18</sup> Consent Judgment ¶ 95.

<sup>19</sup> Consent Judgment ¶ 124.

<sup>20</sup> Dream Center Education Holdings, LLC, is the affiliate that acquired the schools in the transaction, which closed October 17, 2017.

<sup>21</sup> See Dream Center Foundation Press Release, "Education is the Key" (Mar. 3, 2017), *available at* <https://dreamcenter.org/about-us/foundation/>.

numerous for-profit education companies. His brother, Chris Richardson, became DCEH's General Counsel; Shelly Murphy, who had roles in other Richardson companies, became DCEH's Chief Officer, Regulatory and Government Affairs. The new leadership brought in other key managers who had worked with Richardson previously or who had other for-profit education experience.

The new management did not appoint a C-suite level officer who was focused on compliance issues, as the Administrator's Second Annual Report had recommended; instead, the company's compliance functions reported up to Murphy.

## 2. Non-Profit Status

A critical part of DCEH's vision for the network of schools was their conversion from for-profit to non-profit status. This change would be consistent with the purposes of the new company's owner, The Dream Center Foundation, and the Foundation's social and religious mission.

The change also has regulatory significance, as the Department of Education treats for-profit and non-profit schools differently. First, non-profit schools are not subject to the Department of Education's "90/10 rule," a mechanism that ensures that for-profit schools are receiving at least some level of market-based support. In short, the 90/10 rule requires for-profit colleges to receive at least 10% of their revenue from sources other than federal financial aid. Non-profit colleges are subject to no such restriction, and are permitted to cover all of their costs through reliance on federal financial aid provided for students. While there are financial trade-offs, the shift to non-profit status thus can be a significant benefit from a revenue perspective – particularly for schools that have had difficulty generating revenue from sources other than the federal government.

Second, the Department of Education has different disclosure requirements, particularly regarding the typical debt and earnings of program graduates, for for-profit and non-profit schools. The disclosures provide important information for prospective students, as programs that are subject to these Gainful Employment rules and that fail to meet minimum requirements must issue clear warnings to students and prospective students about their programs' failure.<sup>22</sup> The Gainful Employment regulations apply more broadly at for-profit schools; programs that would fail the Gainful Employment regulations and require disclosure at a for-profit school may not need to make that disclosure once a school becomes a non-profit.

For purposes of the Consent Judgment and compliance purposes, it is important to distinguish between DCEH's and its schools *tax status* and its *Department of Education regulatory status*. As a matter of tax law, DCEH has been organized as a non-profit entity under Section 501(c)(3) of the tax code since the time of the EDMC-DCEH transition. However, for Department of Education regulatory purposes, DCEH schools remain treated as *for-profit* institutions – notwithstanding DCEH's tax status – until the Department of Education specifically approves the transition to non-profit status. Until that Department of Education recognition, DCEH and its schools must comply with the various state and federal laws

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<sup>22</sup> 34 C.F.R. § 668.410.

governing non-profit management – such as restrictions on using a non-profit to personally benefit the organization’s management in certain prohibited ways – but is treated as a for-profit for purposes of the Department of Education’s 90/10 and Gainful Employment rules. While DCEH believes that the Department has begun treating DCEH as a non-profit in certain important ways, the Department has also advised DCEH that it remains a for-profit institution for regulatory purposes until final approval is obtained.

### 3. Organizational Changes

DCEH has faced ongoing financial pressures since taking over, and its management believes that the company was in a weaker position than they expected when they took the helm. In a year of organizational change, two changes had particular impact.

First, in April, DCEH engaged in a significant round of layoffs. While the layoffs affected other parts of the company more dramatically, employees with compliance responsibilities for the Business Practices Committee, state regulation, and Department of Education issues departed through the layoffs.

Second, in July 2018, DCEH announced the closing of 30 of its ground campuses, affecting all three brands but the Art Institute schools most heavily. The closures would affect about half of DCEH’s total schools and about a quarter of its total enrollment. As discussed further below, the closures had significant consequences for the business, and dramatic consequences for students. The closures also put a focus on DCEH’s ability to provide accurate, complete information to its students at the closing schools – students whom DCEH was also trying to recruit to attend other DCEH schools.

## III. EVALUATING DCEH’S COMPLIANCE EFFORTS

### A. Compliance Culture

While there were signs of improvement towards the end of the review period, most of the early signs from DCEH’s new management were problematic.

#### 1. Initial Structure

##### a. Initial Compliance Leadership

DCEH did not install a C-suite-level chief compliance officer. The Administrator had recommended such a hire in the Second Report, noting the void that had existed when EDMC’s Chief Compliance Officer departed in May 2017:

The company has now operated without its compliance and audit leadership for several months. Regardless of how capable the existing team may be, long-term vacancies in those positions have consequences. They leave the team less able to break through internal logjams and elevate issues for resolution, and more focused on maintaining existing initiatives than on making improvements proactively. Particularly following several months of uncertainty surrounding a potential



transaction and the resulting hesitance to invest in upgrades, vacancies in these positions have stalled the company's compliance efforts.<sup>23</sup>

The Second Report concluded, "Installing strong compliance and audit leadership and investing in those aspects of the organization should be a priority of DCEH's incoming management."<sup>24</sup>

While Risk and Compliance reported up to a "cabinet-level" officer in Shelly Murphy during this time, her portfolio included all regulatory and government affairs, not just compliance, and her position required an extensive focus on obtaining Department of Education approval for the EDMC-DCEH transition. The issues that had once occupied the full-time Chief Compliance Officer could not occupy the full attention of a senior leader whose responsibilities included several other pressing issues.

There was a significant perception in the company during this time that no one in DCEH's senior leadership was well-versed in the Consent Judgment and its requirements. Discussions that emerged from company management sometimes contemplated courses of action that were flatly inconsistent with the Consent Judgment. Often, those discussions were either halted or abandoned, but the mere contemplation of those courses of action contributed to a belief that leadership did not believe that the Consent Judgment, or compliance generally, was important.

While a lack of high-level understanding of compliance perspectives matters from a cultural perspective, it also has operational consequences. Decisions at DCEH are often made within a circle of high-level leaders referred to as the "cabinet." Each member of the cabinet oversees various functions within the company; a cabinet member with operational responsibilities (or the CEO himself) may propose a course of action, the cabinet will discuss it, and leadership may decide to pursue the idea further. In that decision-making process, it is critical that someone in the cabinet have sufficient understanding of the company's compliance obligations to identify potential issues in the proposal, so that leadership can then assign lower-level operational and compliance personnel to work together to resolve them. Leadership would thus be deciding to proceed in partnership with Risk and Compliance to explore the proposal further.

Because no one in DCEH's cabinet during this period was laser-focused on, and well-versed in, compliance, leadership often considered an operational proposal and then elected to proceed – without having the proposal vetted for compliance concerns. While lower-level compliance subject-matter experts would eventually become aware of, work on, and identify potential issues in the proposal, they were identifying issues only after company leadership was perceived to have – and may have understood itself to have – issued a "go" order. Compliance questions raised after that point were perceived as obstructionist foot-dragging, rather than fulfillment of a critical commitment to compliance.

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<sup>23</sup> Second Report at 11.

<sup>24</sup> Second Report at 11.

## b. Staffing

DCEH took over operations with a compliance infrastructure that was already in need of investment. As discussed in the Second Report and briefly above, both the Chief Compliance Officer and Vice President of Internal Audit had left the company prior to the DCEH transition. The two senior compliance analysts most involved in implementing the Consent Judgment departed during the first six months of the DCEH transition and this review period.

With the reductions in force in April, DCEH employees became concerned that any further staffing reductions, whether through attrition or further layoffs, would threaten the company's ability to meet its obligations. Three areas stand out in which staffing shortages may pose a particular compliance risk.

First, in a highly regulated industry, DCEH must track, calculate, and report significant amounts of information regarding dozens of schools, scores of programs, and thousands of students. Staffing shortages can be particularly acute in the quality control process. Looking ahead, these shortages may degrade the accuracy of the information that DCEH is required to provide to accreditors, regulators, and prospective students. This degradation would likely take place over time, and not be noticeable immediately.

Second, as discussed in detail below, DCEH's ability to implement a compliant recruiting process depends in large part on the company's capacity to listen to, identify violations in, and provide appropriate responses regarding the conversations that admissions representatives have with prospective students. The effective call recording and monitoring program is a significant success of the Consent Judgment. But its continued success depends on having adequate staffing to listen to a meaningful proportion of the company's calls.

Third, the lack of an internal audit team has reduced the company's ability to self-identify problems. Particularly in light of concerns regarding the company's ability to maintain accurate reporting over the long term, EDMC's and now DCEH's failure to replace the internal audit function leaves the company weaker from a compliance perspective.

## 2. Initial Compliance Tone

At the outset, the vision that new DCEH management communicated to employees was a step backwards, particularly in an industry and company that had a long history of compliance challenges. While all businesses must make risk-based judgments with respect to their compliance programs, the perception – created by statements made and actions taken by senior DCEH officials – was that, even where the compliance team identified actions that were or would be contrary to the company's legal and accreditation requirements, such determinations were merely advice that could be rejected by business personnel if the business nonetheless wanted to proceed.

That a company might take "compliance risks" is not necessarily fatal. Not all compliance questions are clear-cut; a sophisticated compliance team will recognize the difference between conduct that clearly violates a legal or accreditation requirements, and conduct that may create the risk of non-compliance, perhaps due to a lack of controls or the novelty of an approach or a lack of clarity about what the company intends. These latter kinds of

questions may properly be described as compliance risks, and the relevant business unit will then have to weigh the nature of the conduct and the risk, and choose the appropriate course. If DCEH's new compliance vision was that the compliance team should provide nuanced judgments where appropriate, that vision could be consistent with a well-functioning organization.

That is not how the new vision was understood, or conveyed. DCEH employees understood that in the new structure, even the most clear-cut compliance issues would be viewed as "risks" for the business team to weigh – and the business team could proceed with the problematic conduct even if it was unquestionably improper, so long as the business justification was strong enough. On some of the issues described further in this Report, Risk and Compliance personnel described expressly informing senior management that a course of conduct was illegal, and were told that the business would proceed regardless.

Some DCEH employees described the shift in focus to "compliance risks" was important, even if imperfectly implemented, because the stricter compliance culture under EDMC had become more likely to cause compliance problems. On this view, EDMC employees had become *afraid* to engage Risk and Compliance on issues, either because the employees feared being punished for non-compliant conduct or because an overly cautious compliance approach would kill compliant, important initiatives due to the smallest, most mis-conceived compliance risk. According to these DCEH employees, the fear of engaging Risk and Compliance meant that EDMC would actually proceed with risky, problematic ideas that could have been corrected had they viewed Risk and Compliance as a more constructive partner.

This concern appears overblown. Legacy EDMC employees, who worked under both EDMC and DCEH, did not report any fear of engaging the Risk and Compliance team under EDMC. Moreover, the Administrator did not observe the kind of riskier conduct that is alleged to have occurred under prior management. If anything, as described throughout this Report, the riskier conduct has arisen during the DCEH era.

The new tone towards compliance also affected the company's relationship with the Administrator. Previous management had appeared to view the Administrator as a partner in the company's efforts to improve its compliance culture: Administrator requests for documents and information were prioritized, and new ideas were vetted with the Administrator team for feedback and improvement. While the new DCEH management at the beginning of this review period did not outright refuse any Administrator requests, there was a distinct shift in tone. Whether as part of an intentional design, competing priorities, or a tighter control on information from DCEH leadership to compliance staff, information requests were filled more slowly and with more difficulty. The company was less proactive in bringing compliance issues to the Administrator's attention, and instead left the Administrator to discover issues through more traditional, resource-consuming investigative practices. When DCEH did bring changes to the Administrator's attention, it was more likely to do so after the change had been implemented, rather than in advance of the change to solicit feedback.

While this shift in tone ultimately did not defeat the Administrator's efforts to obtain information, it was symptomatic of the more problematic change in tone that was directed toward the company's compliance personnel.

The message, from both the CEO and the company’s initial officer overseeing compliance was clear to both current and former DCEH employees and was reported to the Administrator.

- Sometimes the tone was dismissive: Employees described being told that if management did not respond to a compliance concern, the employees should understand that the concern had been registered but did not merit a response, and they should proceed with the initiative notwithstanding their concern.
- Sometimes the tone was flippant: At an initial opportunity for the senior officer overseeing compliance to meet with the compliance staff, the officer referred to the Business Practices Committee – a group that had historically provided compliance feedback on a wide range of public-facing materials, among other things – as the “Business Prevention Committee.”
- Sometimes the tone was angry: The CEO, frustrated with concerns raised by the Pittsburgh-based compliance team, told the team words to the effect of, “Pittsburgh is the place where everything goes to die. . . . If someone wants to file a formal complaint, do it, but then get back to work or whatever it is you do in Pittsburgh. This meeting is over.”

While the Consent Judgment did not mandate a particular “tone” towards compliance, a problematic compliance culture inevitably has concrete results.

### 3. Compliance Restructuring and Recent Improvements

Importantly, there were signs in the final months of the review period that the tone would be changing. DCEH installed a new Senior Vice President of Compliance and Regulatory Affairs, Kate Dillon Hogan, who had a background in compliance at for-profit and non-profit schools. While the new Senior Vice President was not a C-suite-level officer, she reports to the General Counsel, and has a dotted-line report to the Chief Academic Excellence Officer, Dr. Stacy Sweeney, who has a background on accreditation issues. It is worth noting that following the compliance restructuring towards the end of this review period, Dr. Sweeney also became more engaged in compliance issues.

The change in compliance management has had meaningful positive benefits. In recent months, the company has become more responsive to Administrator requests, more proactive in bringing issues to the Administrator’s attention, and more interested in getting additional compliance perspectives before proceeding. More importantly, whereas DCEH had initially contested certain obvious compliance violations, it has begun working towards remediating those issues. And the lack of more recent compliance problems may suggest that the addition of compliance to the cabinet has helped issue-spot and resolve problems before they gain momentum. These signs are important – though sufficiently late in the game that it is difficult to determine whether they reflect a brief stand-down as the Administrator’s presumptive three-year terms approaches its end, or constitute a long-term commitment to providing sufficient institutional support to the compliance team and promoting a compliance culture.

## **B. DCEH's General Structures in Place to Implement Consent Judgment's Requirements**

### **1. Compliance Policies**

DCEH has not initiated major shifts in the policies that have been in place over the prior few years. Most of the policies that governed compliance matters during the Consent Judgment's initial years remain in place. The guidance that Risk and Compliance personnel provide via a listserv through which admissions personnel raise compliance questions has not changed – even if the admissions personnel who once used the listserv several times a week, in the early days of the Consent Judgment, now turn to it only once every few months, and only three times thus far in 2018. Dream Center's 2018 Compliance Guide does not vary in any substantial way from previous guidance issued by EDMC. And the critical "Compliance Grade Key," for example, which determines the "level" of various categories of infractions employees might commit in the admissions process – and thus the type of coaching or discipline that the company might impose – has changed very little, particularly in identifying and describing the most serious "Level 4" offenses.

Yet while there may have been little formal change in the violation and remediation process, employees nonetheless described a distinct change in how policies were enforced when DCEH took over. In their view, infractions that once triggered disciplinary action became viewed more as coaching opportunities. The change was driven, as DCEH management described it, by the new management's view that business and operational employees had become "scared" of the Risk and Compliance organization, and were to so hesitant to violate a policy that they were deterred from doing their jobs. From this perspective, a shift towards treating compliance infractions as teaching opportunities was part of an effort to make Compliance a less threatening, and more integrated, part of their work. Indeed, one employee viewed that change as "a weight lifted off [the employees'] shoulders," because, in that employee's view, some categories of violations that could be viewed as merely "technical" could have disproportionately negative effects on an employee's career with the company.

It is unclear whether the perception of compliance violations as teaching opportunities has continued since the compliance restructuring occurred towards the end of the review period. From a compliance perspective, employees' perception of how their company views compliance is important, and whether employees think the company views violations as teaching opportunities or something different is less critical than how employees think the company views compliance overall. If employees believe that the company values compliance generally, then a perception that certain kinds of compliance infractions are coaching opportunities can contribute to a positive, beneficial cycle. In contrast, where compliance is devalued, even a perceived shift away from a disciplinary framework to a more educational and coaching framework can be viewed as a further weakening of the compliance commitment. That was how compliance was viewed in the company when employees described the shift in attitudes towards compliance violations. If the restructuring of the compliance team towards the end of this review period is successful, then whether employees view violations as teaching opportunities or something different may have less significance.

## 2. Training

Beginning in 2016, EDMC launched a number of online training modules to teach employees about compliance policies related to the Consent Judgment. These interactive trainings were mandatory for all EDMC admissions personnel and covered topics such as how to accurately and comprehensively discuss certification and licensure issues, how to describe features of various programs of study, how to recruit students without making false, deceptive, or misleading statements, and how to discuss information provided to prospective students during the recruiting process.

DCEH has made modest changes to the training process and policies, and has reorganized the on-boarding training process for new admissions representatives. Previously, EDMC conducted training over 10 days, with a mix of classroom and simulated call-time.<sup>25</sup> DCEH's revised training schedule is 15 days, with a greater emphasis on simulated call-time over classroom instruction.<sup>26</sup> The Administrator has reviewed the revised on-boarding schedule and has interviewed DCEH staff responsible for the revisions, and is comfortable that the new schedule covers the same substantive topics from prior iterations and provides adequate training to new representatives.<sup>27</sup> The revised schedule contains a new module entitled "Resolve Engagement Barriers," a title that could raise concerns of pre-Consent Judgment practices returning. However, the new material focuses on resolving barriers to engagement at the beginning of a call – for example, lack of time to talk – rather than overcoming objections to pursuing education. Separate modules on Confirming Educational Interest and Engaging Students the Right Way are still part of the onboarding process, and the Resolving Barriers materials do not contain objectionable or problematic content from a Consent Judgment perspective.

Overall, DCEH's training materials are consistent with the general change that EDMC made from the pre-Consent Judgment training: a move away from a recruiting approach that focused on "overcoming barriers" and toward a framework that confirmed whether the prospective student was actually interested in pursuing an education.<sup>28</sup>

Admissions staff are still required to take and pass an Admissions Compliance Test as part of New Hire Training and semi-annually thereafter. There have been no changes to this policy.<sup>29</sup>

DCEH has, however, made one noteworthy change to the periodic compliance refreshers that EDMC had hosted. In the first year of the Administrator's term, EDMC's Call Monitoring team also hosted a monthly compliance training webchat with mandatory participation by all admissions supervisors. The Administrator's team was invited to observe these sessions, which typically began with a 30-minute presentation on a specific compliance issue, followed by 30

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<sup>25</sup> See EDMC 2017 Training Schedule.

<sup>26</sup> See DCEH 2018 Training Schedule.

<sup>27</sup> Note, however, that while the Administrator team participated in on-boarding in prior years, it has not personally attended sessions under the revised schedule.

<sup>28</sup> *Compare* Argosy University, Training Program: Engagement Barriers (2014) *with* EDMC, Training Program: Confirming Educational Interest (Mar. 16, 2016), at 18.

<sup>29</sup> See Admissions Compliance Guide (July 2018).

minutes of discussion. In the second year of the Administrator’s term, EDMC reduced the frequency of these calls from monthly to quarterly. This change was reasonable, given that fewer new changes related to the Consent Judgment went into effect in the second year, and many EDMC staff had been previously trained on compliance-related topics. There were simply fewer topics to discuss, and rather than continue holding calls that employees found unnecessary and stopped attending, EDMC reduced the calls’ frequency.

DCEH has now ceased the calls entirely. According to Dream Center staff, those calls no longer take place because the volume of new compliance-related materials has fallen. The last webchat was held on January 31, 2018 and concerned the transition to non-profit status.<sup>30</sup> DCEH staff believe more frequent calls would not be useful given that staff are well-versed in the Consent Judgment.

As the Administrator noted in the Second Report, in an organization whose goal is “to help everyone make compliance an integral part of your teams’ culture and conversations,”<sup>31</sup> there is value in having regular, frequent discussions that reinforce the centrality of a compliance mindset. At the same time, calls that are perceived not as improving compliance but as merely talking about compliance, for the sake of talking about it, can build a resentment that is counter-productive. The Administrator has not seen signs that the compliance challenges during this review period were related to the reduction of calls with admissions staff; the compliance challenges generally occurred at other levels of the operation.

### 3. Business Practices Committee

The role that DCEH’s Business Practices Committee (“BPC”) plays in ensuring compliance has been in flux during this review period. The BPC is comprised of a variety of compliance and subject-matter experts who were charged with ensuring the accuracy of materials submitted for their review. Historically, EDMC policies required all marketing and communications materials, including marketing efforts by third-party vendors, to be submitted in advance to the BPC for review.<sup>32</sup> Reviewers include those with expertise in legal, financial aid, state licensure, military, accreditation, and other relevant subject matters. For example, when academic catalogues go through the portal for review, reviewers will include those familiar with requirements by state regulators and accreditors. Reviewers would provide comments on materials submitted; where the review identified compliance deficiencies, the material would be categorized as, “Changes Required, Resubmit.” Those materials could not be used until they were revised<sup>33</sup>:

<b>Changes Required, Resubmit</b>	<b>Materials must be resubmitted for additional review once all edits and comments are incorporated.</b>
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<sup>30</sup> Admissions Call, “Transition to Non-Profit” (Jan. 31, 2018).

<sup>31</sup> See Monthly Admissions/NCC Management Compliance Call (Dec. 8, 2016).

<sup>32</sup> See EDMC, Marketing Compliance Handbook at 5 (updated Jan. 12, 2015); EDMC, Marketing Vendor Compliance Guide at 1 (updated July 19, 2016).

<sup>33</sup> See EDMC, Marketing Compliance Handbook at 7 (updated Jan. 12, 2015).

Under that process, if a BPC reviewer identified an inaccuracy or other compliance deficiency in proposed marketing materials, the material could not be distributed until it had been revised and had obtained BPC approval.

DCEH employees report that the new Dream Center management viewed BPC unfavorably. Indeed, at one early meeting with compliance personnel, a senior leader with compliance responsibilities referred to BPC not as the “Business *Practices* Committee,” but as the “Business *Prevention* Committee” – a remark, perhaps inadvertent, that employees received as a strong signal that compliance was no longer a company priority.

New management also planned operational changes for BPC. Employees report that whereas BPC approval had previously been required before materials could be related publicly, new management thought BPC should provide “recommendations” to the business unit that had proposed the material – but should let the business unit decide whether to accept the recommendations or proceed with the identified “compliance risk.” Some employees described the new role for BPC as one in which the compliance team would be “consulted” but would not have “authorit[y].” Employees also describe the new management as telling them that further down the road, marketing materials would not require compliance staff review at all.

The changes that DCEH management discussed were not implemented, and since the compliance restructuring, there appears to be an effort to make BPC more involved in the decision-making process, not less. This would be beneficial: While there is nothing “magical” about the BPC and its practices to date, a shift towards a decreased role for BPC, coupled with a tone at the top suggesting that the BPC was “prevent[ing]” business, would be concerning. A plan designed to give business units more discretion to weigh compliance risks would mean, if nothing else, that they are more likely to take them.

#### 4. Call Monitoring, Voice Analytics, and Mystery Shops

##### a. Background

As discussed in previous reports, the DCEH compliance infrastructure has historically relied on three primary tools to monitor how its admissions representatives speak with prospective students: targeted call reviews, using the speech analytics software PerformMatch; random recorded call listening; and telephonic and in-person mystery shops in which individuals pose as prospective students and test various compliance scenarios. The speech analytics and random call listening depend on a call monitoring system through which, under the Consent Judgment, DCEH is required to “record all telephone calls and online chats between Admissions Representatives or Student Financial Service Representatives, on the one hand, and Students or Prospective Students, on the other.”<sup>34</sup>

The three tools each play a role and should not be considered redundant.

*Speech analytics.* DCEH’s PerformMatch software analyzes the calls saved on DCEH’s call recording system, using a set of static search terms and rules, flags calls that appear to have

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<sup>34</sup> Consent Judgment ¶ 95.



violated DCEH compliance standards.<sup>35</sup> By looking for certain words or phrases, PerformMatch can detect potentially problematic calls for DCEH’s Call Monitoring team to review.

This speech analytics system enables DCEH to gain compliance insights on thousands of calls per month, and is particularly helpful for identifying problems that can be reduced to particular words or phrases. The Consent Judgment’s requirement that DCEH advise prospective students that discussions with admissions representatives are recorded is a good example: Because the mandatory recorded-line warning involves an established script, PerformMatch can scan tens of thousands of calls each month to determine whether the required words were present. PerformMatch is similarly useful in determining whether *prohibited* words were used, and thus is well-suited, for example, for determining whether admissions representatives used designated offensive terms in their calls. Speech analytics is not perfect for these purposes, because like any voice recognition software it can mis-hear terms that are enunciated differently. But it enables DCEH to search large volumes of calls for specified words and phrases – whether a recorded line disclosure, offensive language, or specified phrases that could signal a misleading recruiting tactic, like “you’ll definitely graduate.” The Administrator has used DCEH’s speech analytics capacity for this purpose, to identify calls in which representatives may be discussing particular issues of interest.

That said, speech analytics software is not a complete solution, as it leaves two important gaps. First, speech analytics software looks for its search terms imperfectly, missing words and phrases that are enunciated in a manner other than the manner the software expects. Second, more fundamentally, speech analytics software looks only for what it looks for: It seeks particular words and phrases from a list of terms compiled by DCEH staff and bolstered with terms added by the Administrator team. And not only is it impossible to anticipate and identify all potential variations of a non-compliant statement, but many behaviors that create the risk of a misrepresentation or an unfair practice are subtle and context-specific. Speech analytics software can apply black-and-white rules to large volumes of calls, but it will miss many instances of deceptive or misleading discussions with prospective students.

The Consent Judgment required EDMC, and now DCEH, to “acquire and implement an automated voice interaction analytics platform ... capable of analyzing *all* of the call recordings” by July 1, 2017.<sup>36</sup> As noted in the Second Report, EDMC had installed its call recording system for the vast majority of its campuses by that deadline, but had delayed installing a call recording system on Argosy University locations in Guam and American Samoa. According to EDMC, installing the system at those locations was prohibitively expensive, and unwarranted given the relatively low volume of calls fielded at those locations. The Administrator has reviewed that claim; because DCEH is now closing the Guam location, the issue focuses on the request that DCEH not be required to install the call monitoring system at the American Samoa location. After discussions with DCEH regarding the costs of installation and a proposal to provide increased mystery shops at that location, the Administrator believes that the purpose of the call recording requirement can be accomplished through much more cost-effective strategies at that

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<sup>35</sup> The Administrator has access to PerformMatch and can have search terms or rules added to the system.

<sup>36</sup> Consent Judgment ¶ 95 & Ex. A.

location. The Administrator has endorsed DCEH's proposal for increased mystery shops at American Samoa in the absence of the call recording system.

*Random call listening.* Random call monitoring is an important complement to monitoring using speech analytics. Whereas speech analytics finds only those problems that have been previously identified and that are articulated in pre-defined ways, random call listening can pick up emerging issues and issues that manifest themselves in unanticipated or subtle ways. And whereas speech analytics software enables listeners to review only that narrow slice of a call in which the software detected an issue, random call listening lends itself to reviews of entire calls – which, again, provides a more complete picture of the nature of DCEH's interactions with prospective students. Random call listening is also labor-intensive; whereas the speech analytics system can pinpoint brief passages of potentially problematic discussions; random call listening requires the call monitoring team to listen to long calls, in their entirety, that in the end are often perfectly compliant.

*Mystery shops.* Finally, unlike the speech analytics and random call monitoring strategies that only work where the call recording system is installed, DCEH can use mystery shops to test admissions and financial aid discussions that focus on particular campuses, programs, and scenarios. Mystery shops are useful for focusing in on particularly difficult issues, the effectiveness of particular training, or particular representatives. DCEH, like EDMC, has relied on a third-party firm, RD Associates, to conduct both telephonic and in-person mystery shops. From a high point of 3,000 telephonic and 80 in-person shops each year, RD Associates conducted 1,950 telephonic and 60 in-person shops during this review period – a drop attributed primarily to the reduction in admissions staff to review, as schools have closed.

#### b. Issues Going Forward

As noted above, the key to effectively monitoring the performance of its admissions representatives does not necessarily lie in any one of the three tools described. Speech analytics, random call listening, and mystery shops all play a role in a strong compliance framework, and address different parts of the problem. An approach that relies exclusively on random call listening would leave vast parts of the company's work unreviewed; similarly, an approach that relies exclusively on speech analytics would miss unquestionable – and unquestionably harmful – violations. Accordingly, the question should be not just *how many* calls DCEH can review, but *how* DCEH reviews those calls. The increased number of recorded calls has certainly enabled DCEH to review more. With speech analytics software that can find preselected problematic phrases and pinpoint the few minutes around those phrases for focused listening, it is possible to assign compliance scores to tens of thousands more calls per month. However, assigning compliance scores is not the same thing as ensuring compliance. Speech analytics, while helpful, should supplement random call listening, not replace it. It is through random call listening that reviewers find the more subtle kinds of infractions, and identify new problems requiring attention.

The new speech analytics software has identified more compliance issues than would have been identified using random call listening alone, and has been particularly valuable for catching violations that necessarily involve the presence or absence of specific key words (such

as failures to disclose that a call is on a recorded line). For that reason, speech analytics has been a valuable compliance tool, and an important requirement of the Consent Judgment.

Ultimately, a successful compliance program will dedicate sufficient resources to support the use of all three of these tools. As the Second Report noted, when EDMC first installed the call recording and speech analytics software across its schools, EDMC struggled to find the proper balance: With the speech analytics software flagging numerous calls as involving potentially problematic phrasing, EDMC dedicated thousands of hours to listening to the flagged calls – a helpful exercise, but ultimately an effort that over-focused on formulaic violations, like the failure to include a recorded line disclosure, and under-focused on other, potentially more pernicious violations that could only be identified through random call listening.

DCEH's call monitoring team was responsive to the Administrator's concern regarding the risk of speech analytics crowding out the company's capacity for random call monitoring. DCEH changed its protocol for flagging calls through its speech analytic software, reducing the volume and focusing on more problematic violations – and thus freed up more capacity for random call monitoring. As a result, DCEH's compliance team was able to listen to approximately 18% more randomly selected calls than in the prior year.

The key now will be continuing to dedicate the resources to speech analytics, random call listening, and mystery shops. There are reasons to be concerned for all three, as call listening is a resource-intensive effort at a time when DCEH has been laying off staff. Employees have raised questions about DCEH management's commitment to the effort, notwithstanding the Consent Judgment's requirement that the call recording program last seven years. Mystery shopping, in particular, may be particularly at risk; while some reduction may be appropriate as the company's call recording system has ramped up and enrollment has dropped, eliminating mystery shopping entirely would sacrifice an important part of the compliance toolbox.

Overall, the improvement of DCEH's admissions representatives over the past three years shows the value of this compliance infrastructure and the Consent Judgment. DCEH's admissions representatives have generally continued to improve, and had relatively few compliance gaps during this review period. The Administrator attributes this bright spot largely to the call recording and speech analytics infrastructure that the Consent Judgment imposed. The key going forward, as mentioned above, will be to dedicate the necessary resources to this program in the years to come.

### **C. Non-Profit Status**

DCEH's compliance structures faced a new set of issues during this review period as a result of the schools' transition, as part of the Dream Center Foundation purchase, into "community focused not-for-profit educational institutions."<sup>37</sup> That is, the shift in the organization's mission also gives rise to different compliance and regulatory issues.

Some of those issues relate to the purpose of the company's new non-profit structure, and whether, as one lawmaker asked prior to the transaction, the company "may be attempting to

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<sup>37</sup> See Dream Center Foundation Press Release, "Education is the Key" (Mar. 3, 2017), *available at* <https://dreamcenter.org/about-us/foundation/>.

skirt federal accountability rules and protections for taxpayers by converting its institutions to non-profit status while maintaining key elements of for-profit governance, including ... a financial arrangement that allows institution leaders to personally profit from the institution's operations."<sup>38</sup> These issues arose during this review period in connection with a potential partnership that DCEH explored with Woz U, a for-profit provider of technological education offerings in which DCEH management also had a financial interest.

Other issues arose when the Department of Education did not approve the DCEH schools' transition to non-profit status as quickly as DCEH had hoped or expected. As a matter of corporate form and taxation, DCEH may have organized itself as a non-profit organization relatively quickly. But notwithstanding that non-profit corporate or tax status, DCEH schools would remain subject to the regulations that govern *for-profit* schools until the Department of Education grants them an Eligibility Certification and Approval Report. Though the Department of Education has issued a "Preliminary Determination" that it "does not see any impediment" to that transition to non-profit status, final approval would be contingent on a number of factors. In a letter to EDMC and DCEH before their transaction closed, the Department stated the following:

[T]he Department has preliminarily concluded that, based on the information and documents provided to date, it does not see any impediment to EDMC's request for approval of the [change in ownership, or "CIO",] or its request for approval of nonprofit institution status ("Preliminary Determination") following the CIO. Please note, however, that formal approvals of the CIO and nonprofit institution status are contingent on the [parties'] compliance with the requirements of 34 C.F.R. § 600.20(g) and (h), the Department's review and approval of any submissions required by those regulatory provisions, and any further documentation and information requested by the Department following the CIO or in this Preacquisition Review Response, including all documents related to the Transaction and the Institutions' conversion to nonprofit status.<sup>39</sup>

Until the transition to non-profit status is approved, DCEH's schools remain for-profit for Department of Education purposes, and are thus subject to more robust disclosure requirements than non-profit schools. As discussed further below, for a significant portion of this review period, DCEH was not providing prospective students with the disclosures that consumers could expect under the relevant Department of Education framework.

#### 1. Woz U

DCEH's flirtation with a "Woz U" partnership provides some important insights into the company's strategic mindset and the associated compliance risks. Woz U markets itself as "inspired by Steve Wozniak, co-founder of Apple Computer," and that provides unaccredited, technology-focused education through both online and in-person offerings. Some of its offerings

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<sup>38</sup> Letter from Sen. Richard Durbin to Mary Ellen Petrisko, President, WASC Senior College and University Commission (June 22, 2017), *available at* [https://www.durbin.senate.gov/imo/media/doc/2017-6-22\\_Letters\\_to\\_accreditors\\_re\\_EDMC\[1\].pdf](https://www.durbin.senate.gov/imo/media/doc/2017-6-22_Letters_to_accreditors_re_EDMC[1].pdf).

<sup>39</sup> Letter from Michael Frola, Department of Education, to Brent Richardson, Dream Center Education Holdings, LLC at 2 (Sept. 12, 2017).

are branded as “Woz U Academy,” through which the company “partner[s] with schools to create campus-based programs ... to help students along their technology career path.”<sup>40</sup>

Woz U, a for-profit entity, is also closely tied to the non-profit DCEH’s leadership. Brent Richardson, DCEH’s CEO, has a financial interest in Woz U. Shelly Murphy, who oversaw DCEH’s regulatory, compliance, and government affairs operations during much of this review period, serves as a Woz U spokesperson.

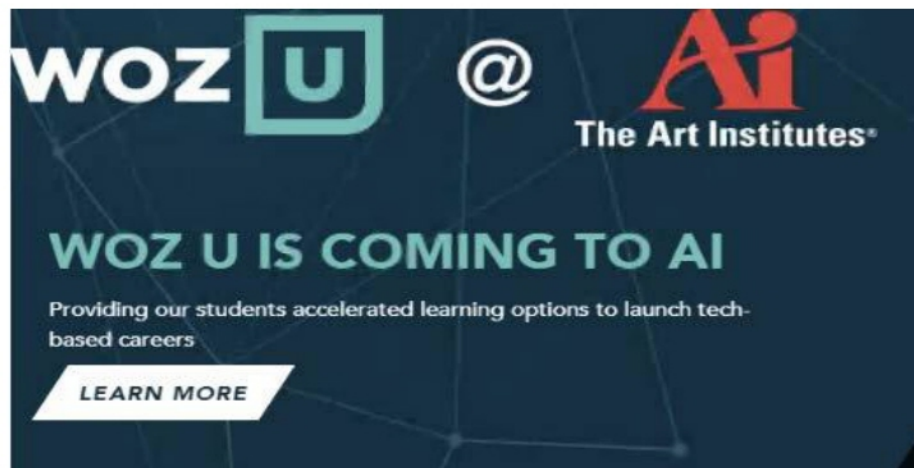
In March 2018, DCEH’s Art Institutes announced a partnership with Woz U to offer a full-time, 12-week software development program. The announcement came amidst significant internal discussion. The partnership appears to have originated at the top, with senior leadership agreeing to roll out a Woz U software coding training “boot camp” at Ai. Lower-level employees charged with implementing the arrangement and ensuring its compliance with Ai’s accreditation and related requirements had a number of questions regarding its precise structure – whether Woz U students would be Ai students, the relationship between the Woz U boot camp and Ai credits, and the need for any regulatory or accreditor approval. The questions, and the pace of resolving them, frustrated DCEH leadership, who ultimately convened a team meeting that began with an admonition directed at DCEH’s Pittsburgh-based compliance team from DCEH CEO Brent Richardson along the following lines: “Pittsburgh is the place where everything goes to die. Understand this. I run DCEH. I run Woz U. You don’t question this. If someone wants to file a formal complaint, do it, but then get back to work or whatever it is you do in Pittsburgh. This meeting is over.” Richardson has acknowledged making remarks along these lines.

It was thus with significant internal uncertainty that DCEH rolled out a Woz U partnership that it described as an Ai offering. For example, the initial March 15, 2018 announcement on the Art Institutes’ blog was headlined, “The Art Institutes to Offer Technology Curriculum in Partnership With Woz U.” The announcement described the offering as “a new partnership” through which “The Art Institutes will provide Woz U’s tech-based curriculum.” A quote from Ai President Claude Brown contrasted Ai’s “traditional[] ... programs” with “The Art Institutes’ Woz U Academy.” The announcement also described Ai’s Woz U courses as “non-credit bearing” and said that they do not transfer into Ai programs. Ai’s announcement on its blog directed interested parties to a Woz U webpage for more information.

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<sup>40</sup> See <https://woz-u.com/about/>.

Other Ai materials conveyed the impression that Woz U was in some meaningful respect an offering of Ai. For example, the lead graphic on the Ai landing page similarly announced that “Woz U is coming to Ai”:<sup>41</sup>



Clicking on the “Learn More” button on this Ai webpage sent users not to another Ai or DCEH webpage, but to Woz U’s website.<sup>42</sup> Sending Ai webpage visitors to a private third-party site for information about “The Art Institutes’ Woz U Academy” – the curriculum that Ai was “offer[ing]” – was apparently a cause of concern within DCEH: Employees who reviewed the Ai website content specifically asked that where the Ai site linked to an external site for more information about the Woz U offering, the company should have the opportunity to review that site – Woz U’s – for accuracy.<sup>43</sup>

These external-facing materials that describe this program as an Ai offering, or similar, are consistent with internal discussions that the Administrator has reviewed. For example, DCEH also considered a standalone website for the relationship with Woz U, with the web address [www.woz-uatai.com](http://www.woz-uatai.com) (i.e., “Woz U at Ai”). While that site appears not to have gone live, it appeared to contemplate a close relationship between Ai and Woz U.<sup>44</sup> In addition, internal personnel reviewing the program understood that the Woz U course would be led by “a Woz U certified Art Institute instructor,” and noted that applicants would be accepted into Ai, not Woz U.<sup>45</sup>

Ultimately, DCEH determined at some point after the public roll-out that the company would not move forward with the Woz U partnership at this time. But the initiative raised two primary sets of questions.

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<sup>41</sup> <https://www.artinstitutes.edu/>.

<sup>42</sup> <https://woz-u.com/AI/>.

<sup>43</sup> BPC Submission Job 36338.

<sup>44</sup> BPC Submission Job 36338.

<sup>45</sup> BPC Submission Job 36413.

a. The Use of DCEH’s Non-Profit Status

One set of issues dealt with whether, given the involvement of DCEH CEO Brent Richardson and others in Woz U, DCEH management was using their non-profit educational institution to provide themselves financial benefits through other vehicles.

In discussions and publicly, DCEH has described Ai and Woz U in a number of different ways: as partners, as separate, and as part of a variety of possible business arrangements. Among other things, DCEH told both its employees and prospective students, at times, that Ai was operating as a landlord, providing space to Woz U.

The contract between DCEH and Woz U suggests that Ai was not just providing space, but had agreed to pay Woz U for operating Woz U on its campus. DCEH was to pay Woz U a \$20,000 start-up fee, \$10,000 for every additional campus on which Woz U opened, “30.00% of the actual amount of money received in payments” for tuition, a \$1500 “Admissions Support” fee, plus additional per-student fees for finance and career services assistance, and a 10% mark-up on certain of Woz U’s lead generation costs.<sup>46</sup> DCEH also agreed to incur the costs of hiring and paying the Woz U instructors.<sup>47</sup>

Had DCEH proceeded with the Woz U initiative, there could have been reasonable questions regarding whether the arrangement constituted ordinary prudent business practices or an impermissible private inurement.<sup>48</sup> For purposes of the Consent Judgment, it is sufficient to note that DCEH’s explanation that it was simply providing space for Woz U was inaccurate.

b. Accuracy of Disclosures to Prospective Students

There were also a number of questions regarding the accuracy of information provided to prospective students regarding the Woz U offering at Ai.

*Relationship to Ai.* Notwithstanding the marketing materials that advertised a close relationship, prospective students who called Ai and sought to move forward in the process were given a different message. They were more consistently told words to the effect of, “[I]t is not an Ai accredited program,” Woz U “has their own representatives,” or “[I]t’s completely separate” – suggesting that the Woz U / Ai partnership was not as close as the advertisements had communicated, and that Woz U was simply using Ai’s space. Given the importance that a program’s reputation plays in its completers’ job prospects, students who enroll in “The Art Institutes’ Woz U Academy” – an unaccredited, non-degree program that was advertised using its connection to the accredited, degree-granting institution – should have been given clear, accurate information regarding the nature of the relationship.

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<sup>46</sup> Exeter Education – Dream Center Education Holdings, LLC Master Services Agreement at Ex. A ¶¶ B.4 & Tbl.1, I (Mar. 7, 2018).

<sup>47</sup> Exeter Education – Dream Center Education Holdings, LLC Master Services Agreement at Ex. A ¶ K.3 (Mar. 7, 2018).

<sup>48</sup> See Internal Revenue Service, Overview of Inurement/Private Benefit Issues in IRC 501(c)(3), at 3 (1990) (providing multi-factor test to determine whether incidental benefits to non-profit managers are appropriate or impermissible).

*Status of completers.* The page through which applicants were invited to apply to the program, bearing the Ai logo and description of the Ai system, referred to “graduates” of the Ai-Woz U offering – when it was unclear that completers of the 12-week offering could accurately be described as “graduates.”<sup>49</sup>

*Job prospects.* Clicking on the “Learn More” page on the Ai landing page took users to a Woz U webpage,<sup>50</sup> bearing the “Woz U @ Ai” logo, with the following claim:

### **TRAINING SKILLED TECHNOLOGY PROFESSIONALS**

The Art Institutes' Woz U Academy prepares students to pursue an **in demand** career as a Software Developer. We will train students to be workforce ready in just 12 weeks! This also includes extensive student services including resume building, interview training, career growth opportunities and portfolio building to showcase their work to future employers. [Learn more about our Software Developer program here.](#)

The description of the 12-week program as “prepar[ing] students to pursue an in demand career as a Software Developer” was questionable. Clicking on the “in demand” link took users to Bureau of Labor Statistics Occupational Outlook Handbook data that contains salary and job outlook information for software developers; that data could support the claim that software developers are, as a general matter, “in demand.” However, that page also indicates that a “typical entry-level education” for the position is a bachelor’s degree – which the Ai-Woz U offering would not have provided, and which would not have been available in Software Development at many of the Ai campuses in question.<sup>51</sup> The government statistics relied on thus did not appear to support the claim that “The Art Institutes’ Woz U Academy prepares students to pursue an in demand career.”

*Outcomes.* That Ai-Woz U “Learn More” description linked to additional information that, while presented in a manner that suggests the additional information relates to the specific Ai-Woz U offering, likely related to other, longer, more involved offerings. At the end of the brief paragraph regarding the 12-week “Art Institutes’ Woz U Academy” was a link for those who want to “[l]earn more about our Software Developer program.” That link took users to another Woz U webpage<sup>52</sup> that provided the following statistics:

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<sup>49</sup> <http://www.cvent.com/events/software-developer-javascript-application/event-summary-d5d6a78c6dde4ddd9ec55fbfb40140a1.aspx> (visited May 23, 2018).

<sup>50</sup> <https://woz-u.com/AI/> (visited May 16, 2018).

<sup>51</sup> <https://www.bls.gov/ooh/computer-and-information-technology/software-developers.htm>.

<sup>52</sup> <https://woz-u.com/software-developer/>.





While the webpage refers both to a “coding bootcamp” and to 24-33-week programs, it appeared that these statistics do not relate to the 12-week Ai offering that was described in the paragraph that linked to this page.

c. Resolution and Issues of Concern

Woz U was the rare issue on which DCEH and the Administrator disagreed about the scope of the Consent Judgment. When presented with the Administrator’s concerns regarding the accuracy of information that Ai was providing regarding the Woz U offering, DCEH did not respond by defending the accuracy of the statements. Rather, it argued that because the Woz U offering was not for credit, that offering itself did not constitute a “program of study” as defined by the Consent Judgment, and thus DCEH’s statements regarding Woz U were not subject to review under the Consent Judgment.<sup>53</sup> Indeed, many of the Consent Judgment’s restrictions are tied to “programs of study” as defined in the Consent Judgment. However, Ai’s partnership with Woz U was not marketed to only some niche set of students for enrollment solely in a separate, standalone program; rather, it was marketed generally to encourage students to enroll in Ai. The statements were thus made “[i]n connection with the recruitment of ... Prospective Students” and were subject to the Consent Judgment’s prohibition on false, deceptive, and misleading statements.<sup>54</sup>

Ultimately, following numerous inquiries, DCEH informed the Administrator that it would not be proceeding with the Woz U partnership. While no formal explanation was given, CEO Brent Richardson indicated in discussions that he was concerned that linking the two companies would be bad for Woz U – suggesting that given Ai’s financial troubles, he had decided not to link his Woz U enterprise with the Ai brand. DCEH has not ruled out other

<sup>53</sup> Consent Judgment ¶ 28 (“‘Program of Study’ shall mean a series of courses, seminar, or other educational program offered at an EDMC school in the United States, for which EDMC charges tuition and/or fees, which is designed to lead toward a degree, certificate, diploma, or other indication of completion, and which is (a) eligible for Title IV funding, (b) involves more than 25 contact hours in a credit bearing course, (c) is designed to make a Student eligible to sit for any state or national certification or licensing examination, or (d) is designed to prepare a Student for another series of courses, seminar, or other educational program that is eligible for Title IV funding. Notwithstanding anything in the foregoing sentence to the contrary, non-credit courses or programs offered for personal enrichment, *i.e.*, hobby courses, that are not Title-IV eligible, courses that are not taken for the purpose of ultimately obtaining a degree, certificate, diploma, or other indication of completion, and review courses that are designed to assist with a Student’s preparation for a state or national certification or licensing exam for which the Student is already eligible to sit, shall not be programs of Study.”).

<sup>54</sup> Consent Judgment ¶ 74; *see also* Consent Judgment ¶¶ 76 (prohibitions on “guarantees concerning Student outcomes”), 77 (prohibitions on false or misleading statements regarding financial aid), & 78 (prohibition on false or misleading claims about the “likelihood of obtaining employment as a result of enrolling”).

arrangements with for-profit entities, including entities in which its leadership or their family members have interests – though it is worth noting that in a current initiative to develop “boot camp” style courses, which DCEH is calling “Nano Credentials,” DCEH is developing the courses fully in-house without any separate vendor, whether affiliated or unaffiliated.

While DCEH ultimately decided not to proceed with Woz U, the initiative raised three sets of compliance concerns. The first are those discussed above: the accuracy of representations made in connection with DCEH recruitment efforts. Whether made directly by DCEH, like its statements regarding the nature of the relationship, or endorsed by DCEH through a joint marketing effort, these kinds of statements need to be accurate. DCEH needs to have review mechanisms in place that are sufficiently robust and respected internally to ensure they are not misleading.

Second, while has DCEH indicated that it is not proceeding with Woz U, close attention should be paid to any arrangements that could be perceived as using DCEH’s non-profit status to benefit its leadership. Organizations that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code<sup>55</sup> are prohibited from entering into certain transactions in which a non-profit organization’s activities provide the organization’s insiders, or their family members, with a disproportionate share of a benefit of the activity in question.<sup>56</sup> Relatedly, state laws governing charitable organizations impose fiduciary and other duties on the directors and officers of non-profit organizations, that can be threatened when directors have conflicting interests.<sup>57</sup> Given the importance of these federal and state laws to the mission of non-profit entities like DCEH and the Dream Center Foundation, DCEH should be very careful to ensure the independence of any decisions – like a contract to pay a company in which DCEH’s CEO has a financial interest – that could benefit its insiders.

Third, DCEH’s internal deliberations regarding the Woz U initiative confirm DCEH’s need for stronger compliance mindset. An organization that dismisses compliance concerns, makes decisions without thorough vetting, and relies on lower-level employees to stand up against higher-level decisions that are presented as *faits accomplis* will have difficulty building the compliance culture that it needs. A better decision-making process in this highly regulated space would have involved a Chief Compliance Officer identifying the need for further review before any commitments were made, an openness to that review and the questions it invited, and either an embrace or dialogue regarding any concerns. Here, the perception that the leadership team – including those with compliance responsibilities – had committed to proceed with Woz U, regardless of what concerns or risks it presented, and then dismissed questions and concerns, undermined the company’s ability to promote a culture of compliance.

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<sup>55</sup> 26 U.S.C. § 501(c)(3).

<sup>56</sup> IRS regulations identify a number of factors when determining whether an activity provides an impermissible private inurement: (1) size and scope of the organization’s regular and ongoing activities that further exempt purposes; (2) size and scope of the excess benefit transaction in relation to the size and scope of the organization’s activities; (3) whether the organization has been involved in repeated excess benefit transactions; (4) whether the organization has implemented safeguards that are reasonably calculated to prevent future violations; and (5) whether the excess benefit transaction has been corrected or the organization has made good faith effort to seek correction from the disqualified persons who benefitted. *See* 26 C.F.R. §§ 1.501(c)(3)-1(f)(2)(ii)(A–E).

<sup>57</sup> *See, e.g.,* Ariz. Rev. Stat. § 10-3860 (2018).

## 2. Gainful Employment

Under U.S. Department of Education regulations, in order to remain eligible to receive Title IV federal financial aid, educational programs must either (1) lead to a degree at a public or non-profit institution or (2) lead to gainful employment. When the current DCEH schools were under EDMC's for-profit umbrella, they had to satisfy a set of regulations known as the "Gainful Employment Rule."<sup>58</sup> Under the Gainful Employment Rule, non-degree programs at public and non-profit institutions and all programs at for-profit institutions are required to calculate and disclose certain data regarding the typical debt and earnings of program graduates. The Gainful Employment Rule also establishes thresholds under which programs are considered passing or failing the gainful employment requirement.<sup>59</sup> Failing programs must issue warnings to students and prospective students through several channels, including via Department-provided templates, verbally during discussions with students and prospective students, and in writing via hand-delivery or email.<sup>60</sup>

Once DCEH schools are fully recognized as non-profit entities for Department of Education regulatory purposes, they will not be subject to the same level of disclosure requirements under the Gainful Employment Rule. Whereas both degree programs and non-degree programs are subject to Gainful Employment disclosure requirements at for-profit schools, only non-degree programs are subject to the disclosure requirements at non-profit schools.

Importantly, while DCEH is, unlike its predecessor EDMC, a non-profit, its schools are still subject to the more extensive Gainful Employment requirements of for-profit schools. Whether a school is treated as for-profit, or as non-profit, for Gainful Employment Rule purposes is not determined solely by their corporate tax status. Rather, a school that is transitioning to non-profit status is still subject to for-profit treatment until the Department of Education issues a final Eligibility Certification and Approval Report. While ultimate Department of Education approval may be likely, it has not been received. DCEH is thus still subject to the Gainful Employment Rule's requirements for for-profit schools – as the Department of Education reminded DCEH in its September 2017 preacquisition, Preliminary Determination letter: "Unless and until the conversion to nonprofit institution status is approved by the Department, the [parties] are reminded that the Institutions must continue to report their ... gainful employment data."<sup>61</sup>

Some of the DCEH programs were deemed "failing" under the Gainful Employment Rule during this review period, triggering DCEH's obligation to post Gainful Employment failure warnings for the degree programs in question. DCEH initially indicated an intent to appeal the Department's failure designations, an action that would have delayed its obligation to provide

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<sup>58</sup> 34 C.F.R. § 668.401 *et seq.*

<sup>59</sup> 34 C.F.R. § 668.403.

<sup>60</sup> 34 C.F.R. § 668.410.

<sup>61</sup> Letter from Michael Frola, Department of Education, to Brent Richardson, Dream Center Education Holdings, LLC at 16 (Sept. 12, 2017).

warnings to students and prospective students.<sup>62</sup> In late 2017, however, DCEH abandoned its appeals,<sup>63</sup> triggering its obligation to issue Gainful Employment failure warnings.<sup>64</sup>

DCEH did not put up its Gainful Employment failure warnings for degree programs as required for for-profit institutions when it withdrew its appeal to the failure determinations. Internally, DCEH compliance personnel who realized that the appeal had been withdrawn discussed the issue, agreed that the disclosure obligation had been triggered given DCEH's for-profit status, and sought to activate the failure warnings on the schools' websites. According to the personnel involved, they were overruled by DCEH management, who acknowledged the disclosure requirement but told the compliance personnel expressly that they could not activate the failure warnings because the warnings would deter new students from enrolling.

While the Administrator was not present for that conversation, the allegation is a serious one: A DCEH manager expressly instructed employees not to comply with federal regulations because doing so would hurt enrollment.

After those discussions with their employees, DCEH's outside counsel informed personnel at the Department of Education that in light of their "transition," DCEH schools were "now remov[ing] their 2017 GE disclosure templates from the program webpages of their degree programs."<sup>65</sup> DCEH has explained that in light of its transition to non-profit status, and its reasonable expectation that the Department of Education would not enforce the Gainful Employment disclosure requirements for for-profit programs against DCEH during this transition period, its decision not to post the Gainful Employment failure warnings is justified.

However, until DCEH receives a final Eligibility Certification and Approval Report, it is subject to the Gainful Employment disclosure requirements for for-profit programs. More specifically in this context, Paragraph 74 of the Consent Judgment prohibits DCEH from making false or misleading statements about its programs, omitting material facts about its programs, and "making any representation inconsistent with required Disclosures of the U.S. Department of Education found in Title 34 of the Code of Federal Regulations Chapter 668."<sup>66</sup> As long as federal regulations require DCEH to disclose its Gainful Employment failures, consumers have a right to expect that the information will be provided – regardless of whether the Department of Education intends to enforce the regulations under those circumstances or not.

Ultimately, the Administrator formally requested that DCEH provide a Corrective Action Plan pursuant to Paragraph 116(a) of the Consent Judgment. Under its Corrective Action Plan, DCEH agreed to take a number of steps. First, DCEH reinstalled its Gainful Employment webpages for degree programs:

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<sup>62</sup> 34 C.F.R. § 668.406.

<sup>63</sup> See [https://studentaid.ed.gov/sa/about/data-center/school/ge\\_](https://studentaid.ed.gov/sa/about/data-center/school/ge_)

<sup>64</sup> GE Electronic Announcement #108, available at <https://ifap.ed.gov/eannouncements/081817GEEA108AnnouncementofAppealsDeadlines.html>.

<sup>65</sup> Email from Ronald Holt to Michael Frola, *Re: DCF/DCEH Institutions – Nonprofit Status: Gainful Employment* (Feb. 6, 2017).

<sup>66</sup> Consent Judgment ¶ 74; see also Consent Judgment ¶ 75(a) (prohibiting "false, misleading, or deceptive statement about any governmental (federal, state, or other) approval related to a Program of Study").

Illinois Institute of Art (The)  
Bachelor's degree in Ai Chicago - Digital  
Filmmaking & Video Production - 230  
Program Length: 45 months

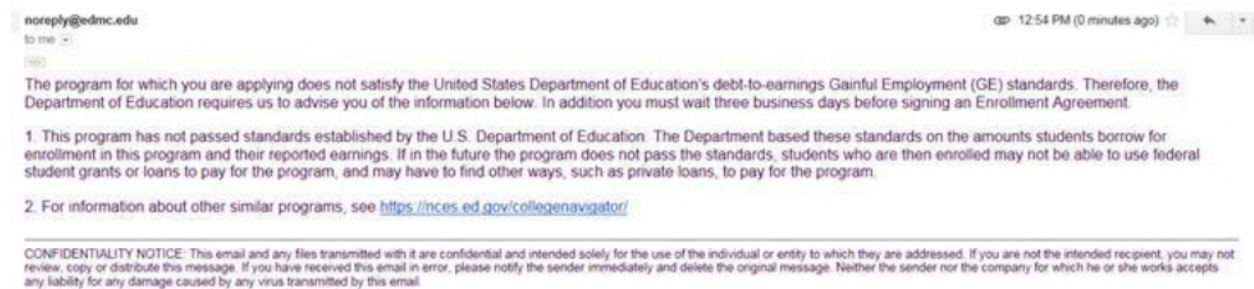
[Print](#)



This program has not passed standards established by the U.S. Department of Education. The Department based these standards on the amounts students borrow for enrollment in this program and their reported earnings. If in the future the program does not pass the standards, students who are then enrolled may not be able to use federal student grants or loans to pay for the program, and may have to find other ways, such as private loans, to pay for the program.

This warning, along with program completion rates, job placement rates, and related information were linked to directly to from the relevant program overview webpages.<sup>67</sup>

Second, DCEH inserted a similar disclosure into its digital application process, so that prospective students must sign an acknowledgment of having seen it. DCEH also sends students seeking to enroll in affected programs the following email:



Third, DCEH updated its academic catalogs, brochures, and admissions training and related materials to include Gainful Employment disclosures. The catalogs and brochures were typically updated via “supplements” that were posted immediately alongside each catalog on the relevant webpage, or via updates to the materials that were linked to in the brochures. Admissions training and related materials were updated to provide for DCEH representatives to point prospective students to Gainful Employment information, with respect to all programs that are covered by the Gainful Employment Rule for for-profit schools. Admissions representatives generally did an adequate job implementing this new requirement. Mystery shops commissioned by the Administrator revealed that admissions representatives consistently pointed prospective students to the relevant program’s gainful employment page, including when the program was in failure.

<sup>67</sup> E.g., <http://ge.artinstitutes.edu/programoffering/230>.

#### **D. Ground Campus Closures and Potential for Loan Discharge**

In July 2018, DCEH announced the closure of 30 of its ground campuses in its Art Institutes, Argosy, and South brands. The closures would affect about half of DCEH's total schools and about a quarter of its total enrollment. DCEH advised that the closures were necessary to put the company and its remaining schools on a more viable financial footing.

As significant as the closures are from a business perspective, they are in many ways more significant from the perspective of individual students' educational futures. No student makes the decision to invest significant time and resources in a particular school with the expectation that the school will close before the student can finish his or her program. School closures are, at a minimum, disruptive.

DCEH initially announced the closures with the following email:

**From:** \_DCEH Comm  
**Sent:** Monday, July 02, 2018 5:03 AM  
**To:** \_DCEH Comm <dcehcomm@dcedh.org>  
**Subject:** Important Organizational Update

At Dream Center Education Holdings (DCEH), we are committed to providing students with an accessible, affordable, relevant, and purposeful education.

Over the last several months, we have taken a strategic and comprehensive look at each of our three education systems and their respective campuses, evaluating them to be sure that they are meeting the needs of today's learners and providing the best student and graduate outcomes.

What has become clear is that we have a critical need and responsibility to become a much more agile organization, responsive to the needs of our students and the changing demands of higher education.

As a result of that examination, we have made the decision to cease new enrollments for the following schools within The Art Institutes, Argosy University, and South University systems:

- The Art Institutes Arlington, VA; Charleston, SC; Charlotte, NC; Chicago, IL; Denver, CO; Fort Lauderdale, FL; Indianapolis, IN; Nashville, TN; Novi, MI; Philadelphia, PA; Phoenix, AZ; Raleigh-Durham, NC; Portland, OR; San Bernardino, CA; San Francisco, CA; Santa Ana, CA; Sacramento, CA; and Schaumburg, IL
- Argosy University Alameda, CA; Dallas, TX; Denver, CO; Nashville, TN; Ontario, CA; Salt Lake City, UT; San Diego, CA; Sarasota, FL; and Schaumburg, IL
- South University Novi, MI; High Point, NC; and Cleveland, OH

We will cease new enrollments at these locations, providing prospective students with access to online offerings or programs at one of our other campuses.

This decision was made for a number of reasons, including significantly declining enrollment and an increase in the demand for online programs in higher education.

It is important to note that current, active students should continue to attend class as scheduled. However, we are continuing to assess the viability of our current offerings at these locations.

This is a necessary step in ensuring that we best support our students, both present and future, in response to the changing landscape of higher education.

Sincerely,



That email, notably, did not provide the dates on which the schools would close or any concrete information regarding future options. When asked to provide any additional information or guidance that the company provided to its school representatives to whom current students would turn to understand what these changes would mean for them, DCEH provided nothing. Current students were told only that their schools were closing, sometime. DCEH advises that it did not provide students with additional information because during this time, the Department of Education instructed DCEH not to announce that the schools were closing.

DCEH later distributed guidance to its campus presidents, laying out three options DCEH was making available for students:

- Finish their studies before the school’s closing date, at a 50% tuition discount.
- Transfer to another DCEH program, whether ground or online, and continue studies at a 50% tuition discount.
- Students whose programs are not available through the school’s online systems could transfer to an institution that accepted the DCEH school’s transfer credits, with a \$5000 voucher from DCEH. DCEH Staff are being laid off at these campuses, and media reports indicate the campuses will close all operations by the end of 2018.<sup>68</sup>

That information about student options was not distributed widely to students until later in the month, when it was included on a “Student Acknowledgment Form” that DCEH asked students to sign, acknowledging that it had been provided.

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<sup>68</sup> See Ai, “FAQ’s Regarding Transition – For Verbal Use Only – Not For Distribution.”

Importantly, the information initially made available to students during this time period did not include sufficiently clear information about a fourth option, available through the Department of Education and required by federal law: the Department of Education's Closed School Discharge program.<sup>69</sup> Federal regulations authorize the discharge of federal loans for students who were enrolled in a school at the time of closing or within 120 days of the closure, a critical form of relief for students whose educations would be cut short by DCEH's closure of thirty schools. Without the discharge program, students who are unable to complete a comparable educational program at another school may be left with crippling debt and no degree. The Closed School Discharge program provides a path, for students who are eligible, to regain their footing after attending a school that closed. It is thus imperative that DCEH, in advising students of their options – and while recruiting students to remain enrolled or transfer to another DCEH school – inform them of this option.

It was also important that information about the Closed School Discharge be provided *timely*, because under the regulations as written, students' eligibility for the program requires them to be enrolled within 120 days of the school's closure. The timing of student decisions thus is important. If a school were scheduled to close at the end of December 2018 – as many DCEH schools now are – students would have to remain enrolled until late August in order to be eligible for the discharge. Absent information about the benefits of remaining in school for the Closed School Discharge program, though, students who were told on July 2, 2018 that their school was closing before they could complete their program could have made the very reasonable choice to withdraw at that time. Withdrawing in July, and avoiding incurring further debts, might have seemed like the sound financial choice, when information about the Closed School Discharge could have shown that staying in school longer would have been a far better choice.

DCEH did not provide students with any information about the Closed School Discharge until late July, when it provided Ai students the "Student Acknowledgment Form."<sup>70</sup> That form, however, did not actually refer to the discharge possibility, but simply added a link to a Department of Education website at the bottom of the page, with no context to suggest that the website described the possibility of discharging the student's federal student loan debts:

Should a student elect not to continue his/her educational program, the U.S. Department of Education provides the following website to assist students: <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/closed-school>

The Administrator informed DCEH that its communications were inadequate, and that the schools needed to inform students more clearly of two things: the availability of the Closed School Discharge option, and their school's closing date – key information for students who may be interested in pursuing the discharge program. The Administrator offered to review DCEH's proposed communications, to ensure that the information was communicated clearly.

DCEH's subsequent communications regarding the teach-outs did not go smoothly. In mid-August, six weeks after DCEH announced the closings, DCEH emailed students to inform them of the first key piece of information: a clear disclosure of the Closed School Discharge option. However, that August communication did not include the second key piece of

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<sup>69</sup> See 34 CFR 674.33, 34 CFR 682.402(d), 34 CFR 685.214.

<sup>70</sup> DCEH advises that it provided this information as soon as the Department of Education approved it.



information: a sufficiently clear statement of the schools' closing dates, so that students would know to stay in school if they ultimately wanted to take advantage of the discharge. To be sure, as discussed further below, the closing dates were not known for some of the schools, because closing dates for some schools would not be set until students' transition plans were known; however, that lack of clarity for some schools was not the reason that closing dates were not included in the August communication. Indeed, the closing date for the majority of schools was known to be December 28, 2018. The reason that this information was not highlighted in the August communication is that DCEH did not provide the Administrator with a meaningful opportunity to review that communication, as the Administrator had requested. According to DCEH, the Department of Education pressed DCEH to send the communications out immediately, without an opportunity for DCEH input.

Following the August communication, DCEH expressed a willingness to provide a clearer statement of school closing dates, where known. But the process took another month: While the Administrator approved a communication that sufficiently disclosed closing dates, DCEH inadvertently sent out the wrong, unapproved communication. It was not until September 20, 2018 – two-and-a-half months after the closing announcement – that DCEH issued the clear, direct communication to its students regarding the Closed School Discharge and the relevant date.

It is important to note, too, that DCEH has provided clarity now only to students at schools for which it has established a definitive closing date; there are a number of schools at which DCEH has yet to set a closing date. At schools with programs that lead to licensure, DCEH is refraining from setting a closing date until the school has worked out transition plans with the students pursuing those degrees. Because students who are particularly far along in licensure programs can have a difficult time transferring to other schools, DCEH has advised that it is aiming to keep schools open where its current students have the need.

That decision to keep schools with licensure-related programs open pending further information about individual students' plans is likely in the long-run interest of certain students, but it also puts other students in a difficult position vis-à-vis the Closed School Discharge. There may be students at those schools, for example, who learned on July 2, 2018, that their school was closing, will not be able to finish their degree, do not wish to incur further debts under those circumstances, and desire to apply for the Closed School Discharge, but have no ability to determine how long they must continue to incur debts at the closing school in order to remain eligible for it.

Perhaps even more difficult is the situation of students whose *programs* at these schools will end this year, leaving those students with no ability to finish *their* program, while the *school* remains open to accommodate those students in the relevant licensure programs.

One state party to the Consent Judgment has proposed a resolution that would provide many of these affected students a path to potential relief under the Closed School Discharge program. A request is pending with the Department of Education to declare the "closing date"

for purposes of the Closed School Discharge to be July 2, 2018, so that students who reacted to the closing announcement by immediately withdrawing would be eligible for the discharge.<sup>71</sup>

The Consent Judgment does not govern DCEH's decision to close its schools, nor does it govern the manner in which the Department of Education exercises its discretion in applying the Closed School Discharge. However, the Consent Judgment does prohibit DCEH, particularly in the course of encourage students to transfer to other DCEH schools, from omitting any material fact.<sup>72</sup> The initial disclosures of the Closed School Discharge were inadequate, and DCEH has worked to provide additional information – information that may be too late for some students, who may have withdrawn immediately without knowing, whether from DCEH or other sources, that remaining in the closing school could make the student eligible for significant financial relief. As the teach-outs proceed, there will be further need to convey important information, and DCEH should be careful to ensure that it is providing accurate, complete information in a timely manner.

## **E. Admissions and Financial Services**

### **1. Misrepresentations, Omissions, Unfair Practices, Abusive Recruiting Methods**

A core element of the Consent Judgment is its provisions that bar DCEH from making deceptive statements, engaging in abusive recruitment methods, or violating state Unfair and Deceptive Acts and Practices laws. Some of the Consent Judgment's prohibitions on these issues are stated broadly: Among other things, DCEH may not omit material facts, or make false, deceptive, or misleading statements.<sup>73</sup> It also may not make representations inconsistent with facts required to be disclosed by the U.S. Department of Education in connection with its communication regarding recruitment, financial aid or financial costs, the student's ability to obtain a license or certification following graduation, the schools' academic standing, or other communications with students or prospective students.<sup>74</sup> Other provisions bar certain specific kinds of representations, prohibiting misrepresentations regarding how many of a student's credits will transfer into or out of the school;<sup>75</sup> statements implying that financial aid or military funding will cover the entire costs of the education, if not true;<sup>76</sup> and statements implying that statistics regarding EDMC generally are true of specific programs of study.<sup>77</sup> Importantly, a number of the prohibitions on these kinds of misleading statements focus on statements regarding the future success of DCEH students: their completion rates,<sup>78</sup> students' ability to sit

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<sup>71</sup> See Letter from Matt Liles, North Carolina Department of Justice, to Acting Assistant Secretary Diane Jones, U.S. Department of Education Office of Postsecondary Education, "Dream Center – Request to Extend Closed School Discharge Eligibility Due To Exceptional Circumstances" (Oct. 9, 2018). At the request of States party to the Consent Judgment, the Administrator asked DCEH whether it would support that request. DCEH declined to support the request, and the Administrator informed the attorneys general of that response.

<sup>72</sup> Consent Judgment ¶ 74.

<sup>73</sup> Consent Judgment ¶¶ 74-75.

<sup>74</sup> Consent Judgment ¶¶ 74-75, 76, 80-82.

<sup>75</sup> Consent Judgment ¶ 76(c).

<sup>76</sup> Consent Judgment ¶ 77(c).

<sup>77</sup> Consent Judgment ¶ 79.

<sup>78</sup> Consent Judgment ¶ 79.