CAREER EDUCATION CORP
Form 10-K
February 22, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from to

Commission File Number 0-23245

CAREER EDUCATION CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Common Stock, $0.01 par value

(Title of Class)

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

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a shell company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes ¨ No x

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant, based upon the $23.02 per share closing sale price of the Registrant s common stock on June 30, 2010 (the last business day of the Registrant s most recently completed second quarter), was approximately $1,429,065,900. For purposes of this calculation, the Registrant s directors and executive officers holding outstanding shares of voting common stock have been assumed to be affiliates, with such affiliates holding an aggregate of 19,198,826 shares of the Registrant s voting common stock on June 30, 2010. As of January 31, 2011, the number of outstanding shares of Registrant s common stock was 77,360,646.

Portions of the Registrant s Notice of Annual Meeting and Proxy Statement for the Registrant s 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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CAREER EDUCATION CORPORATION

FORM 10-K

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PART I

Cautionary Note Regarding Forward-Looking Statements

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

ITEM 1. BUSINESS

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

BUSINESS OVERVIEW

The colleges, schools and universities that are part of the Career Education Corporation family offer high-quality education to a diverse student population of more than 116,000 students across the world in a variety of career-oriented disciplines through online, on-ground and hybrid learning program offerings. The more than 90 campuses that serve these students are located throughout the United States and in France, Italy, the United Kingdom and Monaco, and offer doctoral, master s, bachelor s and associate degrees and diploma and certificate programs.

CEC is an industry leader whose institutions are recognized globally. Those institutions include, among others, American InterContinental University (AIU); Brooks Institute; Colorado Technical University (CTU); Harrington College of Design; INSEEC Group (INSEEC) Schools; International University of Monaco (IUM); International Academy of Design & Technology (IADT); Istituto Marangoni; Le Cordon Bleu North America (LCB); and Sanford-Brown Institutes and Colleges. Through its schools, CEC is committed to providing high-quality education, enabling students to graduate and pursue rewarding career opportunities.

For more information, see CEC s website at www.careered.com. The website includes a detailed listing of individual campus locations and web links to CEC s colleges, schools, and universities.

During 2010, we organized our businesses across four reporting segments which include University, Health Education, Culinary Arts and International. Each segment represents a group of postsecondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segment to enhance brand focus and operational alignment within each segment to more effectively execute our strategic growth plan. Prior to December 2010, our Transitional Schools segment included those schools that were being taught out and ultimately closed. In December 2010, we completed the teach out of our last remaining Transitional school, AIU Los Angeles, CA. As a result, all current and prior period results for this campus that were previously reported in our Transitional Schools segment have been recast as a component of discontinued operations in this Annual Report on Form 10-K.

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University includes our AIU, CTU, IADT, Harrington College of Design, Collins College and Brooks Institute schools. These schools collectively offer regionally and nationally accredited academic programs in the career-oriented disciplines of business studies, visual communications and design technologies, film and video production, photography, health education, information technology, criminal justice, and education in an online, classroom or laboratory setting.

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

Culinary Arts includes our LCB schools that collectively offer culinary arts programs in the career-oriented disciplines of culinary arts, baking and pastry arts, and hotel and restaurant management in a classroom, kitchen or online setting.

International includes our INSEEC, IUM, and Istituto Marangoni schools located in France, Italy, the United Kingdom and Monaco, which collectively offer academic programs in the career-oriented disciplines of business studies, health education, fashion and design, visual communications and technologies and luxury goods and services in a classroom or laboratory setting.

See Note 18 Segment Reporting of the notes to our consolidated financial statements for further discussion.

INDUSTRY BACKGROUND AND COMPETITION

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

According to the National Center for Education Statistics (NCES), there were approximately 6,730 Title IV eligible postsecondary education institutions in the United States for the academic year 2009-10, including approximately 2,935 private, proprietary schools; approximately 1,990 public, non-profit schools; and approximately 1,805 private, non-profit schools. According to the U.S. Department of Education, in the fall of 2009 approximately 21 million students were attending institutions that participate in the various financial aid programs under Title IV of the Higher Education Act.

Our primary competitors in the publicly traded, proprietary postsecondary education industry are: Apollo Group, Bridgepoint Education, Inc., Capella Education Company, Corinthian Colleges, Inc., DeVry Inc., Education Management Corporation, Grand Canyon Education, Inc., ITT Educational Services, Kaplan, a division of the Washington Post Company and Strayer Education. We also compete with a number of privately held, proprietary and non-profit postsecondary institutions.

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BUSINESS AND OPERATING STRATEGY

We believe that individuals, to compete successfully in today s demanding workplace, benefit significantly from a solid education that provides them with the foundation of knowledge and skills they can use on the job and to build meaningful careers. Our vision is to transform our Company into a progressive education leader that delivers life-changing education for generations of students. Our business and operating strategy are focused on educating students for jobs in specific fields and enabling our institutions to meet the needs and demands of our students. We have aligned our strategic plan on four primary enablers for growth:

Improve Academic Quality, Compliance and Operational Effectiveness

We have maintained our focus on delivering quality outcomes to our students as we continue to change lives through education. In order to do this, we have enhanced our efforts and introduced multiple initiatives in 2010 to improve academic quality throughout our institutions. Examples include changes in our admissions representative compensation plans, enhanced admissions processes, mystery shopping, and on-going reviews and evaluations of student management, course and recruiting processes and practices. We are confident that these efforts will improve the quality of the education we provide through our institutions, the overall student experience and lead to successful student outcomes.

We continue to focus on strengthening our foundation in regulatory compliance through our emphasis on individual and organizational responsibility and accountability. We have achieved a high level of compliance through several initiatives, which included conducting proactive internal and external assessments to identify and correct risks early, standardizing policies, processes and forms, and centralizing annual reporting to accreditors to ensure accuracy, consistency and timeliness.

In order to improve service, we continuously seek to leverage best practices and resources across our campuses. We have capitalized on our centralization efforts that continued through 2010 and were able to increase efficiencies and effectiveness in school support functions. We have also sought to minimize real estate costs and investments by utilizing existing space across our campuses to accommodate population growth and to more effectively serve our students.

Develop New Programs

To effectively serve the educational needs of our students, we offer a full range of educational options, including doctoral, master s, bachelor s, and associate s degrees; and non-degree certificates and diploma programs. Our schools focus on core curricula that we believe have traditionally provided quality employment opportunities for well-prepared graduates.

In addition, we seek to foster organic growth by leveraging educational programs that have been successful at other campuses and continuing to explore opportunities to expand in programmatic areas which provide significant growth potential driven by student outcomes and employer demands. In the domestic proprietary postsecondary education market, industry data shows that the areas of highest growth potential include health education, business, education and information technology. Accordingly, we are expanding program offerings in these areas through accelerated program innovation and development.

Leverage Our Leading Technology

CEC continues to capitalize on its award-winning online architecture which we believe provides a key differentiator from other postsecondary institutions. We provide a unique integrated student experience with our proprietary virtual campus which allows the student to experience a seamless environment throughout his or her student lifecycle.

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CEC offers the student the full spectrum of educational options through its innovative proprietary technology. Our integrated platform is based on four primary functions: flexible access, flexible learning, social networking and the integrated experience. These functions include the online classroom, mobile access, learning resources and tutoring help, delivering student services, access to documents, collaboration tools, course information, messages and announcements, multi-channel communication with staff, advisors and faculty, a virtual commons area with integration of a social networking site and service and an alumni community. Our adaptive learning options allow students to mold the student experience to best fit their learning style.

Within our Sanford-Brown Institutes and Colleges, CEC has furthered our application of the Simpro Virtual Trainer. The Simpro Virtual Trainer software enables students to practice procedures at their convenience through virtual simulation, text, 3-D anatomy and video. Through our innovative technological expansion and focus, we have continued to enhance the student experience and differentiate our schools from other postsecondary institutions offerings.

Along with our fully-online platforms, we continue to develop our blended learning model, which capitalizes on our universities online virtual campus platform and enables students at our on-ground campuses to complete a portion of their academic programs on-ground and a portion of their academic programs online. We believe that our blended learning model provides our current and prospective students with the program flexibility they desire.

Expand Geographically

A key component of our growth strategy is the establishment of start-up branch campuses of our existing schools. Start-up branch campuses enable our schools to capitalize on new markets or geographic locations that exhibit strong enrollment and student outcome potential or exhibit the potential to establish successful operations for one of our core curricula.

During 2010, we opened six start-up branch campuses in Health Education, including SBC-Hillside and SBI-Cranston in the first quarter, SBC-Tinley Park and SBC-Indianapolis in the second quarter, SBC-Skokie in the third quarter and SBC-Portland in the fourth quarter.

We will continue to seek to grow our education institutions through measured expansion steps and expect to open additional new Health Education campuses in the upcoming year. In addition, we continue to expand our student population in existing markets through focusing our efforts on leveraging current programmatic offerings. We currently operate in 26 states and four countries outside of the U.S. We believe there are further geographic growth opportunities within the U.S. and internationally.

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

School and Campus Locations	Website
CULINARY ARTS:	
California Culinary Academy, *San Francisco, CA*	www.chefs.edu
Le Cordon Bleu College (or Institute) of Culinary Arts (LCB)	www.chefs.edu
LCB-Atlanta, *Tucker, GA*	
LCB-Austin, *Austin, TX*	
LCB-Boston, *Cambridge, MA*	
LCB-Chicago, *Chicago, IL*	
LCB-Dallas, *Dallas, TX*	
LCB-Las Vegas, *Las Vegas, NV*	
LCB-Los Angeles, *Pasadena and Hollywood, CA*(1)	
LCB-Miami, *Miramar, FL*	
LCB-Minneapolis/St. Paul, *Mendota Heights, MN*	
LCB-Orlando, *Orlando, FL*	
LCB-Pittsburgh, *Pittsburgh, PA*	
LCB-Portland, *Portland, OR*	
LCB-Sacramento, *Sacramento, CA*	
LCB-Scottsdale (includes Online), *Scottsdale, AZ*	
LCB-Seattle, *Seattle, WA*	
LCB-St. Louis, *St. Peters, MO*	
HEALTH EDUCATION:	
Briarcliffe College	www.bcl.org
Briarcliffe College, *Bethpage (includes Online) and Queens, NY*(1)	
Briarcliffe College, *Patchogue, NY*	
Brown College, *Mendota Heights and Brooklyn Center, MN*(1)	www.browncollege.edu
Gibbs College of Boston, Inc. a private two-year college, *Boston, MA*	www.gibbsboston.edu
Missouri College, *Brentwood, MO*	www.missouricollege.com
Sanford-Brown College (SBC)	www.sanford-brown.edu
SBC-Atlanta, *Atlanta, GA*	
SBC-Cleveland, *Middleburg Heights, OH*	
SBC-Collinsville, *Collinsville, IL*	
SBC-Dallas, *Dallas, TX*	
SBC-Dearborn, *Dearborn, MI*	
SBC-Farmington, *Farmington, CT*	
SBC-Fenton, *Fenton, MO*	
SBC-Grand Rapids, *Grand Rapids, MI*	
SBC-Hazelwood, *Hazelwood, MO*	
SBC-Hillside, *Hillside, IL*	
SBC-Houston, *Houston, TX*	

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School and Campus Locations	Website
HEALTH EDUCATION (Cont):	
SBC-Houston North Loop, *Houston, TX*	
SBC-Indianapolis, *Indianapolis, IN*	
SBC-McLean, *McLean, VA*	
SBC-Phoenix, *Phoenix, AZ*	
SBC-Portland, *Portland, OR*	
SBC-San Antonio, *San Antonio, TX*	
SBC-Skokie, *Skokie, IL*	
SBC-St. Peters, *St. Peters, MO*	
SBC-Tinley Park, *Tinley Park, IL*	
SBC-Milwaukee, *West Allis, WI*	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu
SBI-Cranston, *Cranston, RI*	
SBI-Ft. Lauderdale, *Ft. Lauderdale, FL*	
SBI-Garden City, *Garden City, NY*	
SBI-Iselin, *Iselin, NJ*	
SBI-Jacksonville, *Jacksonville, FL*	
SBI-Landover, *Landover, MD*	
SBI-Monroeville, *Monroeville, PA*	
SBI-New York, *New York, NY*	
SBI-Orlando, *Orlando, FL*	
SBI-Pittsburgh, *Pittsburgh, PA*	
SBI-Tampa, *Tampa, FL*	
SBI-Trevose, *Trevose, PA*	
SBI-White Plains, *White Plains, NY*	
SBI Campus an affiliate of Sanford-Brown *Melville, NY*	www.sanford-brown.edu
INTERNATIONAL:	
INSEEC Group	www.inseec-france.com
CEFIRE, *Paris, France*	
ECE, *Bordeaux and Lyon, France*	
INSEEC, *Bordeaux and Paris, France*	
MBA Institute, *Paris, France*	
Sup de Pub, *Paris, Lyon and Bordeaux, France*	
Sup Sante, *Paris and Lyon, France*	
International University of Monaco, Monte-Carlo, *Principality of Monaco*	www.monaco.edu
Istituto Marangoni, *Milan, Italy; London, England; Paris, France*	www.istitutomarangoni.com
UNIVERSITY:	
American InterContinental University (AIU)	www.aiuniv.edu
AIU Online, *Hoffman Estates, IL*	www.aiuonline.edu
AIU Atlanta, *Atlanta, GA*	
AIU Houston, *Houston, TX*	
AIU London, *London, England*	
AIU South Florida, *Weston, FL*	
Brooks Institute, *Santa Barbara and*	www.brooks.edu

Ventura, CA (1)

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School and Campus Locations	Website
UNIVERSITY (Cont):	
Collins College, *Phoenix, AZ*	www.collinscollege.edu
Colorado Technical University (CTU)	www.coloradotech.edu
CTU Colorado Springs, *Colorado Springs and Pueblo, CO* (1)	
CTU Denver, *Denver and Westminster, CO* (1)	
CTU Kansas City, *North Kansas City, MO*	
CTU Online, *Colorado Springs, CO*	
CTU Sioux Falls, *Sioux Falls, SD*	
Harrington College of Design, *Chicago, IL*	www.interiordesign.edu
International Academy of Design & Technology (IADT)	
IADT-Chicago, *Chicago, IL*	www.iadtchicago.edu
IADT-Detroit, *Troy, MI*	www.iadtdetroit.com
IADT-Las Vegas, *Henderson, NV*	www.iadtvegas.com
IADT-Nashville, *Nashville, TN*	www.iadtnashville.com
IADT-Online, *Tampa, FL*	www.online.academy.edu
IADT-Orlando, *Orlando, FL*	www.iadt.edu
IADT-Sacramento, *Sacramento, CA*	www.iadtsacramento.com
IADT-San Antonio, *San Antonio, TX*	www.iadtsanantonio.com
IADT-Schaumburg, *Schaumburg, IL*	www.iadtschaumburg.com
IADT-Seattle, *Seattle, WA*	www.iadtseattle.com
IADT-Tampa, *Tampa, FL*	www.academy.edu

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

Student Recruitment and Admissions

Our schools seek highly motivated, career-oriented students with both the desire and ability to complete their academic programs of choice. To promote interest among potential students, each of our schools engages in a wide variety of marketing activities. Each of our U.S. campuses has an admissions office whose staff is responsible for interacting with individuals interested in enrolling at the campuses. Admissions representatives serve as prospective students primary contacts, providing information to help them make informed enrollment decisions and assisting them with the completion of the enrollment process. As of December 31, 2010, our domestic schools employed 2,123 admissions representatives serving both current and potential students.

We seek to increase enrollment at each of our schools through marketing programs designed to maximize each campus market penetration. The geographic scope of the marketing programs as well as the media deployed varies by school and location. The following table represents our estimated percentage of domestic new student starts generated by student leads obtained from various marketing sources during the years ended December 31, 2010, 2009 and 2008:

	Domestic New Student Starts by Source Year Ended December 31,		
	2010	**2009**	**2008**
Internet	71%	70%	71%
Referrals	16%	15%	14%
Television and print	9%	10%	9%
Other	4%	5%	6%

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

Student Academics

At CEC, learning outcomes and career readiness are attained by our students as a result of the quality learning experience we provide. Those learning experiences are characterized by career-oriented curriculum, engaging instructional delivery, qualified faculty, and accessible student support services. As a result, more than 500,000 students have graduated from CEC schools as of December 31, 2010.

Curriculum

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

CEC s curricula, instructional delivery, and faculty comprise the learning experience that appeals to our student population and provides them with a unique opportunity to develop the knowledge, skills and competencies required for specific career outcomes. The curriculum development process begins with the identification of desired career outcomes and associated competencies, informed by advisory boards, programmatic accrediting agencies and industry standards. Subsequently, learning objectives are identified and courses are developed which foster student engagement in activities which optimally result in the attainment of program learning outcomes and employment readiness.

Instructional Delivery

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

Sanford-Brown has partnered with Pegasus Lectures Inc. as a means of reinforcing student engagement with the content. Pegasus Lectures provides ultrasound continuing medical education for physicians, practicing sonographers and beginning students of sonography for the purpose of exam preparation. As a result of this partnership, Sanford-Brown students will have access to Pegasus exam preparatory review materials that are easily integrated into the curriculum at no additional cost to the student.

CTU Online and Sanford-Brown exemplify CEC s commitment to the engagement of the learner by introducing a new student experience through a virtual health laboratory. Working with software that medical billing and coding professionals use in the workplace, the virtual health laboratory experience provides the student with:

- hands-on, relevant health information management software experience;
- opportunities to work with patient records for experience in coding, abstracting and chart completion;
- options and convenience that accommodate diversity in student learning styles;
- experience that facilitates a smooth transition from classroom theory to workplace practice; and

skills training with a recognized software product that increases graduate marketability.

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Construction of a virtual classroom that engages online students with their instructor, their peers and the content is critical to the achievement of student learning outcomes. CEC online instructional delivery is accomplished utilizing an innovative, student-focused learning management system. While online content delivery is very common today, CEC s proprietary system, M.U.S.E. (My Unique Student Experience), has several features that make it distinctive in the education marketplace. M.U.S.E. allows students to apply a filter to the content, according to preferred learning styles, enabling learners to determine how they would like to engage with the course content.

Our Simpro Virtual Trainer is a highly interactive tool for students to learn, practice and perfect cognitive and clinical procedure skills. Cognitive skills, such as knowledge, recall, analytical thinking, decision making and judgment, are often difficult to develop. Simpro Virtual Trainer was designed to be a cognitive simulator that breaks down each clinical procedure into its component steps, enabling the student to use this innovative software to learn how to perform each step in the correct order, at the correct time, with the correct hand, using the correct instrument, applied to the correct anatomical structure. Simpro Virtual Trainer combines four types of media to engage and teach students that include:

- rich descriptive text with hyperlinks that users can simply click on to reference material and information;
- interactive 3-D anatomy where images are specific to the procedure, helping to give students a more detailed look and familiarity with the human anatomy;
- video descriptions of each procedure narrated by a medical expert; and
- virtual reality simulations, where students utilize learning and testing modes.

Simpro Virtual Trainer provides diagnostic medical sonography, cardiovascular and radiography students computer-based opportunities to practice their skills and knowledge prior to entering clinical experiences, reducing the time needed in the clinical training environment.

Faculty

CEC employs approximately 6,600 appropriately credentialed, geographically disbursed, full-time and adjunct faculty who are responsible for facilitating learning in our lecture halls, kitchens, labs, studios and virtual classrooms. Our faculty are hired, assigned, developed and evaluated in compliance with state, institutional accreditation and programmatic accreditation standards. Twenty-four percent of our full-time faculty have earned master s degrees and forty-nine percent of our adjunct instructors possess master s degrees. Generally, all schools require the instructor to have a degree at least one level higher than the level of course being taught plus teaching and/or industry experience. General Education faculty members must possess a master s degree. The average tenure of a CEC faculty member is 3.8 years.

Faculty Development

Instructors are required to engage in faculty development activities each year as part of the continuous improvement process. CEC has contracted with MaxKnowledge to provide online and ground instructor access to online faculty modules located within the Center for Excellence in Education (CEE). CEE provides faculty with interactive content and asynchronous discussion opportunities in areas such as teaching methodology, instructional practice, classroom management, outcomes assessment and student retention. Instructors may enroll in up to three online courses per subscription year. Additionally, each institution provides in-services as a means to support and improve instructional practice. We believe that by developing our faculty, we are enriching not only the faculty s skills, but also the educational experience of our students.

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Instructional Practice in Higher Education: An Online Journal

Instructional Practice in Higher Education is an online, peer-reviewed journal sponsored by Career Education Corporation and intended to provide postsecondary faculty from the for-profit career sector an opportunity to publish work relevant to their instructional context. The online journal resides on the Imagine America Foundation (IAF) website. The journal site is located at http://www.imagine-america.org/highereducationjournal.asp.

The online journal highlights instructional theory and practice that promotes student engagement, achievement of learning outcomes, implementation of technology, and demonstration of holistic assessment within the context of career education.

A peer review board evaluates each submission to determine currency and relevancy of the topic to the target audience, as well as the degree to which the topic has been thoroughly addressed. The online journal also has an editorial board that is charged with evaluation of submissions to ensure adherence to a consistent style and appropriate documentation.

The first issue of the online journal was published in July 2010; a second issue is expected to be issued early in 2011.

Student Support Services

CEC has historically served a diverse student population. Our students represent a broad range of educational and employment experience, contributing to their college-level readiness.

Beginning in 2011, our domestic schools will be expanding the use of testing strategies to assess student readiness to engage in college-level work. For those students who are admitted to an institution but demonstrate that they may encounter academic challenges, developmental support will be provided.

Although faculty members will always serve as the primary point of contact, students may also engage the assistance of tutors and academic advisors for assistance. Students have access to technical support 24 hours each day/seven days each week. Online students have access to online reference librarians 77 hours per week.

We believe that the employment of our students in their field of study is a key indicator of the success of our schools and the fulfillment of our educational mission. Provision of personal support and assistance to our student population is a hallmark of our educational model. Each of our campuses has a career services department whose primary responsibility is to prepare students to conduct a successful job search. In addition, career services staff members assist students in identifying part-time employment, including participation in internship programs, while our students pursue their education. Part-time employment opportunities are an important part of our overall success strategy, as these opportunities may lead to permanent positions upon graduation.

As of December 31, 2010, we employed 306 individuals in the career services departments of our campuses. In addition to our career services personnel, we employ many externship coordinators who help students obtain externships that prepare them to compete in the employment market.

Additionally, there are currently 55 alumni chapters and more than 480 alumni leadership board members who assist in the management of alumni programs at the campus level. These leadership groups are engaged in creating opportunities for student/alumni interaction including panel discussions and networking seminars.

Student Retention

CEC continually emphasizes the importance of student retention at each of our schools. As is the case at any postsecondary educational institution, a portion of our students fail to complete their academic programs for a variety of personal, financial or academic reasons. Our experience indicates that increases in our revenue and

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profitability can be achieved through modest improvements in student retention rates. Furthermore, the costs to our schools of retaining current students are generally much less than the expense of the marketing efforts associated with attracting new students. Our schools consolidated retention rates for the years ended December 31, 2010, 2009 and 2008, were approximately 67.0%, 70.0% and 66.7%, respectively. These rates were determined in accordance with the standards set forth by Accrediting Council for Independent Colleges and Schools (ACICS) to provide a common formula for all our schools regardless of their accreditor.

Seasonality

Our quarterly revenues and income fluctuate primarily as a result of the pattern of student enrollments. Our schools generally experience a seasonal increase in enrollment in the fall, traditionally when the largest number of new high school graduates begins postsecondary education. Furthermore, although we encourage year-round attendance at all campuses, certain programs offered by some of our schools include summer breaks. Most notably, our campuses within our International segment do not typically instruct students over the summer. Operating costs for our schools generally do not fluctuate significantly on a quarterly basis. Results of operations reflect this seasonal enrollment pattern. Revenues, operating income and net income by quarter for each of the past two fiscal years are included in Note 19, Quarterly Financial Summary of the notes to our consolidated financial statements.

Employees

As of December 31, 2010, we had a total of 15,598 employees, including 1,453 students employed on a part-time basis at certain of our schools, as follows:

	Full-time Non-student Employees	Part-time Non-student Employees	Part-time Student Employees	Full-time Faculty	Part-time Faculty	Total
Corporate	1,358	37			7	1,402
Continuing operations	5,929	201	1,452	1,385	5,224	14,191
Discontinued operations	3		1		1	5
Total	7,290	238	1,453	1,385	5,232	15,598

Student Population

Our student population for our continuing operations as of December 31, 2010 and 2009 was 116,800 students and 105,300 students, respectively. Included in total student population for our continuing operations as of December 31, 2010 and 2009 were 44,500 students and 40,800 students, respectively, enrolled in our University, Health Education and Culinary Arts fully-online academic programs. Related student population demographic information as of December 31, 2010 and 2009, were as follows:

Student Population by Age Group

	As a Percentage of Total Student Population as of December 31,	
	2010	2009
Under 21	16%	16%
21 to 30	42%	43%
Over 30	42%	41%

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Student Population by Core Curricula

	As a Percentage of Total Student Population as of December 31, 2010	2009
Business Studies	50%	50%
Health Education	22%	20%
Visual Communications and Design Technologies	13%	13%
Culinary Arts	11%	11%
Information Technology	4%	6%

Student Population by Degree Granting Program

	As a Percentage of Total Student Population as of December 31, 2010	2009
Doctoral, Master s, Bachelor s Degree	37%	33%
Associate Degree	42%	43%
Certificate	21%	24%

ACCREDITATION

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

Pursuant to provisions of the Higher Education Act of 1965, as amended (HEA), the U.S. Department of Education (ED) relies on accrediting agencies to determine whether institutions educational programs qualify the institutions to participate in federal financial aid programs under Title IV of the HEA. The HEA and its implementing regulations specify certain standards that all recognized accrediting agencies must adopt in connection with their review of postsecondary institutions. All of our U.S. campuses are accredited by accrediting agencies recognized by ED.

AIU s accrediting agency, the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC), commissioned an advisory team to visit AIU in January 2010. The advisory team conducted a review of AIU, with particular focus on program integrity. Based on the results of its review, the HLC advisory team did not cite AIU for any violations of any HLC accreditation criteria, including but not limited to those related to program length and credit hours, and did not recommend any sanction or limitation on AIU s accreditation status. The advisory team recommended a focused visit for 2011 or 2012 to evaluate AIU s transition to a new undergraduate credit structure which was introduced in February 2010. All new undergraduate students starting at AIU are enrolled in programs with this new credit structure. The recommended focused visit will supersede the focused visit concerning credit equivalence previously scheduled for 2010. The focused visit is currently scheduled for September 19 20, 2011.

In accordance with HLC policy, the advisory team s recommendation that HLC conduct a focused visit to evaluate AIU s transition to a new undergraduate structure was subject to review and approval by the HLC Institutional Actions Council (IAC) and validation by the HLC Board of Trustees. The advisory team s recommendation was approved by the IAC on June 14, 2010, and the decision of the IAC was validated by the

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HLC Board of Trustees on June 23, 2010. AIU s updated Statement of Affiliation Status and Organizational Profile were posted to the HLC s website on Friday, July 9, 2010.

AIU has recently submitted new academic program applications to HLC, which are being reviewed by HLC in accordance with its regular practices.

A listing of our U.S.-accredited schools, including all main and branch campus locations for regulatory purposes and relevant accreditation information is provided in the following table:

ACCREDITATION TABLE

School, Main Campus Location (Branch campuses are in parentheses)	**Accreditor(1)**	**Year of Accreditation Expiration(2)**
American InterContinental University		
Hoffman Estates, IL (Online) *(Atlanta, GA; Weston, FL; Houston, TX; London, England)*	HLC	2014
Briarcliffe College		
Bethpage, NY (*Patchogue, NY*)	MSA	2011
Brooks Institute		
Santa Barbara, CA	ACICS	2016
Brown College		
Mendota Heights, MN	ACCSC	2012
California Culinary Academy		
San Francisco, CA	ACCSC	2010(3)
Colorado Technical University		
Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*)	HLC	2012
Gibbs College of Boston, Inc, a private two-year college		
Boston, MA	ACICS	2014
Harrington College of Design		
Chicago, IL	HLC	2015
International Academy of Design & Technology		
Chicago, IL (*Troy, MI; Schaumburg, IL; Nashville, TN; Collins College, Phoenix, AZ)*	ACICS	2012
Tampa, FL (*Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts (Orlando); Sanford-Brown College, Portland, OR)*	ACICS	2014
Le Cordon Bleu College of Culinary Arts		
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL and Hazelwood, MO)*	ACICS	2017
Pasadena, CA *(Hollywood, CA; Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL, and Skokie, IL; Sanford-Brown Institute, Orlando, FL)*	ACICS	2012
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	ACCSC	2012(4)
	ACICS	2014
Scottsdale, AZ (includes Online) (*Las Vegas, NV)*	ACCSC	2010(3)(5)
Le Cordon Bleu College of Culinary Arts in Chicago	HLC	2018
Chicago, IL		

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School, Main Campus Location (Branch campuses are in parentheses)	Accreditor(1)	Year of Accreditation Expiration(2)
Le Cordon Bleu Institute of Culinary Arts		
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc., a private two year college (Boston Campus); Le Cordon Bleu College of Culinary Arts, Miramar, FL)*	ACCSC	2015(6)
Missouri College		
Brentwood, MO	ACCSC	2011
Sanford-Brown College		
Atlanta, GA *(Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Ft. Lauderdale, FL; Landover, MO; New York, NY; and Trevose, PA)*	ACICS	2014
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	ACICS	2013
Farmington, CT	ACICS	2011
Fenton, MO (*St. Peters, MO)*	ACICS	2011
McLean, VA	ACICS	2015
Sanford-Brown Institute		
Cranston, RI	ACICS	2010(7)
Jacksonville, FL *(Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)*	ACICS	2011
Pittsburgh, PA *(Monroeville, PA)*	ACCSC	2014
White Plains, NY	ACICS	2013
SBI Campus an Affiliate of Sanford-Brown		
Melville, NY	ACICS	2014

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

(2) Status as of February 15, 2011. Institutions seek renewal of accreditation during the year noted.

(3) Accreditation has been extended while the institution completes the reaccreditation process.

(4) Accreditation for the Tucker branch campus, which expired in 2010, has been extended while the institution completes the reaccreditation process.

(5) Accreditation for the Las Vegas branch campus expires in 2015.

(6) Accreditation for the Miramar branch campus expires in 2011.

(7) In process of merging with SBI Campus an Affiliate of Sanford-Brown; awaiting final approval from ED.

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Programmatic accreditation, while not a sufficient basis for institutional Title IV Program certification by ED, assists graduates to practice or otherwise secure appropriate employment in their chosen field and has been granted by the following accrediting agencies with respect to the following individual programs taught at certain of our campuses:

PROGRAMMATIC ACCREDITATION TABLE

Accrediting Body	Campus	Program Accredited
Accreditation Council for Occupational Therapy Education	Sanford-Brown College, Hazelwood	Occupational therapy assistant
Accreditation Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Engineering
Accrediting Bureau of Health Education Schools	Colorado Technical University, North Kansas City; Gibbs College, Boston; Missouri College; Sanford-Brown College, Atlanta, Collinsville, Dallas, Dearborn, Farmington, Fenton, Grand Rapids, Hazelwood, Houston, Houston North, McLean, Middleburg Heights, Phoenix, San Antonio, St. Peters and West Allis; Sanford-Brown Institute, Cranston, Ft. Lauderdale, Garden City, Iselin, Jacksonville, Landover, Monroeville, New York, Orlando, Pittsburgh, Tampa, Trevose, and White Plains; SBI Campus - an affiliate of Sanford-Brown, Melville	Medical assistant
Accrediting Bureau of Health Education Schools	Sanford-Brown College, Dallas, Houston, Houston North and St. Peters; Sanford-Brown Institute, Ft. Lauderdale, Iselin, and Jacksonville	Surgical technology
Accrediting Commission for Programs in Hospitality Administration	Le Cordon Bleu Institute of Culinary Arts (Pittsburgh)	Hotel and restaurant management
American Culinary Federation Education Institute	California Culinary Academy, Le Cordon Bleu College of Culinary Arts, Austin, Las Vegas, Mendota Heights, Miramar, Orlando, Pasadena, Portland, Scottsdale, and Tucker; Le Cordon Bleu College of Culinary Arts in Chicago, Le Cordon Bleu Institute of Culinary Arts (Pittsburgh)	Culinary arts

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Accrediting Body	Campus	Program Accredited
American Culinary Federation Education Institute	California Culinary Academy, Le Cordon Bleu College of Culinary Arts, Mendota Heights, Miramar, Orlando, Portland and Scottsdale; Le Cordon Bleu College of Culinary Arts in Chicago; Le Cordon Bleu Institute of Culinary Arts (Pittsburgh)	Pastry and baking
American Dental Association Commission on Dental Accreditation	Missouri College; Sanford-Brown College, Dallas; Sanford-Brown Institute, Ft. Lauderdale, Jacksonville, and Orlando	Dental assisting
American Dental Association Commission on Dental Accreditation	Missouri College	Dental hygiene program
The American Society of Anesthesia Technologists and Technicians	Sanford-Brown Institute, Pittsburgh	Anesthesia technology
American Society of Health Systems Pharmacists	Sanford-Brown College, Dallas, Houston, Houston North, and Middleburg Heights; Sanford-Brown Institute, Ft. Lauderdale, Garden City, Iselin, Jacksonville, Monroeville, New York, and Tampa	Pharmacy technician
American Veterinary Medical Association	Sanford-Brown College, Fenton and St. Peters; Sanford-Brown Institute, Pittsburgh	Veterinary technology
CAAHEP-Curriculum Review Board of the American Association of Medical Assistants Endowment	Colorado Technical University, Sioux Falls	Medical assistant
CAAHEP-Accreditation Review Committee on Education in Surgical Technology and Surgical Assisting	Colorado Technical University, North Kansas City and Pueblo; Sanford-Brown College, Dallas, Houston, and Houston North; Sanford-Brown Institute, Ft. Lauderdale, Iselin, Jacksonville, and Monroeville	Surgical technology
CAAHEP-Joint Review Committee on Education in Diagnostic Medical Sonography	Sanford-Brown College, Atlanta, Dallas, Houston and Middleburg Heights; Sanford-Brown Institute, Garden City, Iselin, Landover and Pittsburgh	Diagnostic medical sonography
Committee on Accreditation for Respiratory Care	Sanford-Brown College, Fenton; Sanford-Brown Institute, Monroeville	Respiratory therapy

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Accrediting Body	Campus	Program Accredited
Council for Interior Design Accreditation	American InterContinental University, Atlanta; Harrington College of Design; IADT Chicago, Tampa and Troy	Interior design
Joint Review Commission on Education in Radiologic Technology	Colorado Technical University, North Kansas City; Sanford-Brown College, Fenton, Houston North, Middleburg Heights, and West Allis; Sanford-Brown Institute, Pittsburgh	Radiologic technology
National Accrediting Agency for Clinical Laboratory Sciences	Sanford-Brown College, Houston	Medical laboratory technician
National Court Reporters Association	Colorado Technical University, Sioux Falls	Court reporting

State Authorization and Accreditation Agencies

To participate in Title IV Programs, an institution must be authorized to offer its programs of instruction by the relevant education agencies of the state in which it is located, accredited by an accrediting agency recognized by ED, and certified as eligible by ED. ED will certify an institution to participate in Title IV.

An institution is eligible for participation in Title IV Programs only after it has demonstrated compliance with the HEA and ED s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance with these requirements to ED on an ongoing basis. These standards are applied primarily on an institutional basis, with an institution defined as a main campus and its additional campus locations, if any.

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

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to, state authorization. The October 29, 2010 regulations require, among other things, that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. These new regulations may require our schools offering distance education to obtain state approvals or registrations from additional states which currently or in the future may elect to regulate institutions that enroll their residents in online programs and courses. Our schools offering distance learning are in the process of submitting and expect to have submitted additional applications for licensures or exemptions for their distance learning programs before the end of March, 2011. We believe there are a lot of other institutions that have or will be submitting similar applications and can not anticipate how quickly the state agencies, some of whom we believe are taxed by resource shortages, will be able to respond to the applications.

State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear and the interpretation of such regulations is generally left to the discretion of state employees or agents and may not be reflected in any written policy. In response to the new ED rules, states that do not presently regulate delivery of online courses and programs may enact legislation or issue regulations that

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

If one of our schools offering distance learning does not have the appropriate state approvals for its online programs, it may not be able to continue to offer distance education to students in those states until it obtains the additional approvals or exemptions which could have a material impact on our business, financial condition, results of operations, cash flows and the value of our common stock.

The level of regulatory oversight varies substantially from state to state. In certain states in which we operate, our campuses are subject to licensure by an agency that regulates proprietary institutions and also by a separate higher education agency. State laws establish standards for, among other things, student instruction, qualifications of faculty, location and nature of facilities, and financial policies. State laws and regulations may limit our campuses ability to operate or to award degrees or diplomas or offer new degree programs. If any one of our campuses were to lose state authorization, it would be unable to offer educational programs, and students attending the campus would not be eligible to participate in Title IV Programs, and the lack of Title IV eligibility would likely require us to close a campus if it were to lose state authorization. See Note 12 Commitments and Contingencies of the notes to our consolidated financial statements for a further discussion of selected state regulatory matters currently affecting us and our schools.

International Regulations

Our schools that operate in France, the Principality of Monaco, Italy and the United Kingdom are subject to local government regulations. We believe that each of our international locations currently holds all necessary domestic authority to operate within its respective jurisdiction, and campus administrators work to ensure compliance with domestic regulations.

France. Our INSEEC Group (INSEEC) consists of nine schools which operate primarily in France and are governed by the French Ministry of Education. One of INSEEC s schools offers health education programs and, thus, is governed by the French Ministry of Health, the French Ministry of Education and the National Professional Committee for Medical Visits for the school s pharmaceutical test preparation and continuing education classes.

The French Ministry of Education has three levels of approval for educational institutions: diploma endorsement (Level III), state recognition (Level II), and diploma stamp (Level I, the highest level of French approval). In 1999, an additional level entitled Master Grade, which represents the highest level of European approval, was added.

The Level III approval, which is co-governed by the French Ministry of Employment and the French Ministry of Education, has been reorganized and the institutions affected by the reorganization are now registered in the New Certification National Register. With respect to Level II approval, Level I approval, and the European approvals, conditions that must be satisfied to obtain approvals are generally becoming more strict, requiring institutions to, among other things, provide additional financial support for research, and hire additional full-time, Ph.D.-level faculty.

Currently, two of our INSEEC schools have been granted the highest level of European approval, Master Grade, four schools have been granted Level I approval, four schools have been granted Level II approval, and seven schools have been granted Level III approval. As of December 31, 2010, one of our schools is under review for a Level III accreditation, which relates to a new approval. These approvals are subject to regular renewal, the schedule for which depends on geographic zones. All Level I renewals for our schools from the French Ministry of Education have been obtained as of December 31, 2010.

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Istituto Marangoni received acceptance from the French Rectorat de Paris, on November 9, 2006 and on January 27, 2011, Manchester Metropolitan University (MMU) recognized the Istituto Marangoni Paris campus for the delivery of MMU accredited programs taught in English for six years. MMU is in the process of validating all Istituto Marangoni France programs.

Principality of Monaco. The International University of Monaco delivers a full time Masters of Business Administration (MBA) and an Executive MBA; IUM obtained accreditation from the Association of MBAs in 2004 and the renewal of this accreditation for one year was received in May 2010. The degrees Masters and Bachelor of Science in Business Administration are recognized by the Ministry of Education in Monaco.

Italy. Istituto Marangoni, a private postsecondary fashion and design school, was granted the status of Professional Art School in Italy on December 17, 1935, and obtained authorization to open a school from the Italian Ministry of Education on February 13, 1951 and on January 27, 2011, MMU recognized the Istituto Marangoni Milan campus for the delivery of MMU accredited programs taught in English for six years. MMU is in the process of validating all Istituto Marangoni Italy programs.

United Kingdom. AIU London has been granted proper authority by the applicable U.S. and United Kingdom entities to grant academic credentials. AIU London is authorized to grant U.S. academic degrees by the Nonpublic Postsecondary Education Commission (NPEC) of the State of Georgia. U.S. students that attend AIU London are eligible to participate in Title IV financial assistance programs through AIU London s status as an additional location of American InterContinental University. AIU London is listed as a recognized institution of higher education in the UK by the Business Innovation & Skills (BIS) and appears on the Department s register. AIU London is registered in England No: 1373237. Additionally, American InterContinental University, including its campus located in the United Kingdom, is accredited by HLC (a U.S. regional accrediting association).

Istituto Marangoni London was granted a Certificate of Accreditation by the British Accreditation Council for Independent Further and Higher Education (BAC) on September 26, 2006 and currently is in the process of obtaining reaccreditation by April 2011. As a result of changes in UK immigration legislation, Istituto Marangoni London signed an articulation agreement with Manchester Metropolitan University in March 2010 to be able to continue to sponsor students from outside of the European Economic Area (which comprises all of the European Union countries plus Iceland, Norway, Liechtenstein and Switzerland). Istituto Marangoni London is also currently working towards meeting the requirements of United Kingdom immigration legislation as it applies to educational institutions and courses of study in the UK via a validation process in partnership with Manchester Metropolitan University.

STUDENT FINANCIAL AID

Many of our students require assistance in financing their education. For this reason, our schools participate in financial aid programs and offer financing options to those who qualify. Our U.S. schools and AIU-London are approved to participate in the Department of Education s Title IV federal aid programs. Our schools also participate in a number of state financial aid programs and private funding options. Our schools that participate in federal and state financial aid programs are subject to extensive regulatory requirements imposed by federal and state government agencies, and other standards imposed by educational accrediting bodies.

Nature of Federal Support for Postsecondary Education in the United States

The U.S. government provides a substantial portion of its support for postsecondary education in the form of Title IV Program grants, loans and work-study programs to students who can use those funds to finance certain education related expenses at any institution that has been approved to participate by ED. These federal programs are authorized by HEA. While most students are eligible for a Title IV loan, more generally, financial aid administered under Title IV is awarded on the basis of financial need, which is generally defined under HEA as

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the difference between the costs associated with attending an institution and the amount a student s family can reasonably be expected to contribute based on a federally determined formula. Among other things, recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study.

Students at our schools may receive grants, loans and work-study opportunities to fund their education under the following Title IV Programs, although not all of our schools participate in each of these programs:

Federal Student and Parent Loans

ED s major form of self-help aid includes loans to students and parents through the William D. Ford Federal Direct Loan (DL) Program and the Federal Family Education Loan (FFEL) Program. Loans under the FFEL program are made by banks and other lending institutions directly to students or their parents. Direct Loans are available through the U.S. Government rather than through a bank or other financial institution. The major differences between the two programs are the source of the loan funds, some aspects of the application process, and the available repayment plans. For the FFEL program, our schools and students use a wide variety of lenders and guaranty agencies and have not experienced difficulties in accessing FFEL program loans. Both programs offer Federal Stafford, Federal Parent PLUS, Federal Grad PLUS and Federal Consolidation Loans. As a result of the Health Care and Education Reconciliation Act of 2010 (HCERA) (Public Law 111-152), signed March 30, 2010, the FFEL Program was eliminated. The law provided that after June 30, 2010 Stafford and PLUS Loans may only be made through the DL program.

Federal Stafford Loans (Stafford Loans), which may either be subsidized or unsubsidized, are loans made directly to our students by banks, other lending institutions or directly from the federal government. Students who have a demonstrated financial need may be eligible to receive a subsidized Stafford Loan, with ED paying the interest on this loan while the student is enrolled at least half-time in school and during the first six months after leaving school. Students who do not demonstrate financial need may be eligible to receive an unsubsidized Stafford Loan. The student is responsible for the interest on an unsubsidized Stafford Loan while in school and after leaving school, although actual interest payments generally may be deferred by the student until after he or she has left school. Students who are eligible for a subsidized Stafford Loan may also be eligible to receive an unsubsidized Stafford Loan.

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

A Federal PLUS Loan, including both the Federal Parent PLUS and the Federal Grad PLUS, is a loan made directly to either graduate students or the parents of dependent students. Graduate students and parents who have an acceptable credit history may borrow through the Federal PLUS Loan to pay the education related expenses of a graduate student or a child who is a dependent student enrolled at least half-time at our eligible schools. The amount of a Federal PLUS Loan cannot exceed the student s cost of attendance less all other financial aid received.

Federal Perkins Loan Program (Perkins Loans). Perkins Loans are made from a revolving institutional account, 75% of which is a Federal Capital Contribution from ED and the remainder of which is funded by the institution. Each institution is responsible for determination, disbursements, collections and servicing of the Federal Perkins Loans. Currently, only one of our schools participates in the Federal Perkins Loans program.

Federal Grants

Federal Pell Grant and Federal Supplemental Education Opportunity Grant. Title IV Program grants are generally made to our students under the Federal Pell Grant (Pell Grant) program and the Federal Supplemental Educational Opportunity Grant (FSEOG) program. ED makes Pell Grants up to 200% of the

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maximum amount of $5,550 for 2010-11 per award year to students who demonstrate financial need. FSEOG program awards are designed to supplement Pell Grants up to a maximum amount of $4,000 per award year for the neediest students. An institution is required to match 33% of the allocation amount from ED for all federal funds received under the FSEOG program. The matching may be accomplished through institutional, private and/or state funds.

Academic Competitiveness Grant (ACG) Program. ACG program awards are available to students who have successfully completed a rigorous high school program as defined by the Secretary of Education. An ACG award provides funds for the first and second academic year of undergraduate study. To be eligible, a student must be enrolled at least half-time, must be a United States citizen or eligible non-citizen, and must be eligible to receive a Pell Grant. Second year students must also have a cumulative grade point average of at least 3.0 on a 4.0 scale.

The National Science and Mathematics Access to Retain Talent Grant (SMART Grant) Program. The SMART Grant will provide funds for each of the third and fourth years of undergraduate study. To be eligible, a student must be enrolled at least half-time, must be a United States citizen or eligible non-citizen, must be eligible to receive a Pell Grant, and must be enrolled in a physical, life or computer sciences, mathematics, technology, engineering, or in a foreign language program determined critical to national security, as defined by the Secretary of Education. Students must also maintain a cumulative grade point average of at least 3.0 on a 4.0 scale.

Federal Work-Study (FWS) Program

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

Alternative Student Financial Aid Sources

The financial aid available to our students under Title IV Programs and state programs may be less than the tuition costs at certain of our U.S. schools. Many of our students secure private loans to finance a portion of their tuition costs. These private loans are made directly to our students by financial institutions and are not guaranteed under any of the Title IV Programs.

The fees and interest rates on these private loans are generally higher than the loans made under the Title IV education loans. These fees and interest rates also vary depending on the student s or co-borrower s credit history, with fees and interest rates lower for those with better credit histories.

A financial institution providing a non-recourse loan assumes 100% of the credit risk on the loan. The student, or the student and a co-borrower, must meet the credit criteria established by the financial institution to receive these loans. Each financial institution establishes its own credit criteria and loan limits. Students and co-borrowers generally can borrow an amount equal to the student s cost of attendance less all other financial aid received. SLM Corporation or its subsidiaries (collectively known as Sallie Mae) and Wells Fargo Education Financial Services provided the majority of non-recourse private loans to our students in our U.S. schools during the year ended December 31, 2010.

Prior to March 31, 2008, certain of our students were able to secure recourse loans with Sallie Mae and other financial institutions. These students did not qualify for non-recourse loans due to low credit scores. The loan amounts available under these recourse loan programs were generally less than the amounts available under non-recourse loan programs and often covered only the direct costs associated with their education less any other financial aid received. On February 14, 2008, we received notification from Sallie Mae that it would no longer continue to offer recourse loans to existing students entering their second or subsequent academic term. Our recourse loan program with Sallie Mae ended on March 31, 2008. The uncertainty that continues in the U.S. credit markets has made it difficult for us to obtain recourse loan arrangements with other financial institutions. As a result, in the second quarter 2008, we began to offer funding alternatives for eligible students in place of the recourse program that had previously been provided by Sallie Mae. We decided to provide payment plans directly to certain students to ensure that they can finish their existing educational programs with us and to allow new students the opportunity to attend our schools. As of December 31, 2010, we have committed to approximately $85.4 million of funding through extended payment plans. Of this amount, approximately $9.0 million is reflected within our current and non-current student receivables, net of allowance for doubtful accounts and net of deferred tuition revenue, on our consolidated balance sheets. Beginning in 2011, we discontinued providing payments plans to a majority of our new students. We will continue to provide payment plans to current students until they have completed their program of study. The total estimated future commitment to our students is estimated to be up to $20 million as of December 31, 2010. Business model changes, primarily within Culinary Arts, will reduce the total tuition costs for new students, thus reducing the need for additional borrowing under extended payment plans. For additional details related to this business model change, see our Management s Discussion and Analysis of Financial Condition and Results of Operations in this annual report.

Legislative Action

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

The Higher Education Opportunity Act was the first reauthorization of the HEA since 1998 and was signed into law on August 14, 2008. It was immediately effective for many items with others effective in the subsequent years. The Act authorizes increases in the Federal Pell Grants, changes some ACG and National SMART Grant eligibility requirements, expands Stafford Loan deferment options, provides changes to needs analysis and changes treatment of Veterans Administration benefits effective with the 2010-11 award year.

The agencies that regulate our U.S. schools, including ED, periodically revise their requirements and modify their interpretations of existing requirements.

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to state authorization, gainful employment, compensation rules for persons engaged in certain aspects of admissions and financial aid, determination of attendance and definition of credit hours. With one exception, these regulations will become effective July 1, 2011. ED previously announced that it was delaying until early 2011 publication of final regulations on certain further proposed gainful employment regulations, which are expected to become effective on July 1, 2012 or thereafter.

The October 29, 2010 regulations contain changes from the proposed regulations issued by ED in June 2010. The Company continues to analyze the final regulations, to identify and assess potential impacts to our business and to consider and evaluate various strategies to address those potential impacts. These new and pending regulations could have significant impacts on our business. Among the most significant regulatory changes that we have identified to date for our business are:

- the elimination of certain safe harbors that had allowed, under limited and prescribed circumstances, payment of certain types of compensation to employees (including higher level employees) and third parties involved in student enrollment, certain recruiting, admissions or financial aid activities;

- imposition of extensive record-keeping and disclosure requirements respecting the employment of graduates, as a precursor to proposed gainful employment regulations, described above, that would base the eligibility of specific programs to enroll students receiving Title IV Program funds on certain yet-to-be defined metrics including but not limited to cost of education, future earnings, student loan defaults and debt incurred in the securing of such education;

- defining a credit hour for purposes of determining program eligibility for Title IV student financial aid;

- establishing more stringent state approval criteria that may require or encourage states to modify existing state approval and licensing processes;

- requiring an institution that offers distance learning programs to secure the approval of each state where it enrolls students to the extent any such state requires such approval and provide evidence of such approval to ED upon request; and

- strengthening the definition of proscribed misrepresentation to include, among other things, erroneous statements, including erroneous statements made by certain third-party vendors under contract to an institution, which may increase institutional liability and subject institutions to sanctions for statements containing inadvertent errors, and expose institutions to costly third-party litigation.

These rules are likely to require us to change certain of our business practices, incur costs of compliance and of developing and implementing changes in operations, may affect student recruitment or enrollment, may result in changes in or elimination of certain programs and may have other significant or material effects on our business. Among other things, these rules will impact or have impacted:

- Our compensation programs for persons (including higher level employees) involved in student recruitment and admissions, including third-party lead generators and internet marketing vendors, which may adversely affect:

  - our ability to compensate our employees involved in recruitment, admissions and student aid based on relative merit,

  - recruitment and retention of such employees,

  - the motivation and effectiveness of such employees,

  - our ability to provide certain forms of compensation to management, impacting recruitment and retention,

  - compensation practices for third-parties for Internet marketing and lead-generation services,

  - quality of leads generated by these third-party service providers and increased cost for leads,

  - our marketing costs, by decreasing marketing efficiency and through increasing costs of recruiting and enrolling prospective students, and

  - our revenues, if we are unable to maintain or increase the rate of student enrollments.

We are terminating certain compensation payments to our affected employees and are implementing changes in contractual or other arrangements with third parties to change payments allowed with the former safe harbors related to compensation.

Our schools offering distance learning are in the process of submitting and expect to have submitted additional applications for licensures or exemptions for their distance learning programs before the end of March, 2011. At this time, the impact and potential costs of these regulations on our schools is uncertain but will increase our costs of regulatory compliance, will likely delay the introduction of new programs and have other material adverse effects on our operations, revenues, results of operations and cash flows.

If final gainful employment regulations are issued and become effective in July 2012 or thereafter, certain of our programs, primarily our Culinary Arts and Art and Design programs, may be unable to maintain eligibility to enroll students receiving Title IV Program funds or have restrictions placed upon program offerings as a result of not meeting certain prescribed metrics. Such loss of or restrictions to program eligibility may result in us determining to terminate or modify the affected programs under our current business model, and also result in a realignment on the types of educational programs we offer in order to comply with the new rules. For example, we will change our Culinary Arts operating

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model in early 2011 to position us better to potentially appeal to an even broader market and respond to the regulatory environment. If we are required to implement a number of such changes to comply with gainful employment regulations, these changes could have a material adverse impact on our enrollments, business, financial condition, results of operation, cash flows and value of our common stock.

We cannot predict with certainty the impact of the regulations issued on October 29, 2010 on our operations and cannot predict the outcome of the proposed gainful employment rules that are expected to be issued in early 2011. The costs to comply with these regulations, and the investment associated with our continuing focus on enhancing the quality of student services in order to prepare students for success in their chosen careers, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations

We and our schools are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance, and lawsuits by ED and federal and state regulatory agencies, accrediting agencies, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards, or other regulatory requirements applicable to us or our schools.

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

If the results of any such audits, reviews, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, or other civil or criminal penalties. In addition, if ED or another regulatory agency determined that one of our schools improperly disbursed Title IV Program funds or violated a provision of the HEA or ED s regulations, that school could be required to repay such funds, and could be assessed an administrative fine. We have several such matters pending against us at one or more of our schools. See Note 12 Commitments and Contingencies Accrediting Body and State and Federal Regulatory Matters of the notes to our consolidated financial statements for further discussion of certain of these matters.

Student Loan Default Rates. An institution may lose eligibility to participate in some or all Title IV Programs if the rates at which its former students default on the repayment of their federally-guaranteed or federally-funded student loans exceed specified percentages. An institution s cohort default rate is calculated on an annual basis as the rate at which student borrowers scheduled to begin repayment of their loans in one federal fiscal year default on those loans by the end of the next federal fiscal year.

Currently, an institution whose cohort default rate equals or exceeds 25% for three consecutive years will no longer be eligible to participate in the FFEL, DL, Pell Grant, ACG or SMART programs for the remainder of the federal fiscal year in which ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose cohort default rate equals or exceeds 25% for any one of the three most recent federal fiscal years, may also be placed on provisional certification status by ED for up to four years.

HEOA legislation passed in 2008 changes the evaluation period for the default calculation from two years to three years. The first three-year rate will be received in February 2012 for the period covering October 2008 through September 2011, although enforcement of the three-year rate rules will not begin until the October 2010 through September 2013 period. This three-year rate will be reviewed in 2014 and in the event the rate fails to meet ED requirements, sanctions may be instituted. In December 2009, ED published trial three-year default data for 2005 through 2007. For the 2006 and 2007 cohorts, none of CEC s institutions were above the regulatory thresholds that will take effect in 2014. In addition, for the most recent official two-year rate computed based on the 2008 Cohort, CEC was below the proprietary school average as published by ED. Penalties today are enforced on the two-year period and begin at the 25% default level. The first three-year penalties will be enforced beginning in 2014 and at that time the threshold will be raised to 30%.

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An institution whose cohort default rate for any federal fiscal year exceeds 40% will no longer be eligible to participate in the FFEL or DL programs for the remainder of the federal fiscal year in which ED determines that the institution has lost its eligibility and for the two subsequent federal fiscal years. The 40% threshold will not change with the 2014 movement to a three-year rate.

Under the Perkins Loan Program, an institution whose cohort default rate equals or exceeds 15% for any year, may be placed on provisional certification status by ED for up to four years.

Student loans which have entered repayment are serviced by private organizations and/or ED s preferred student loan servicers. Loans made under the FFEL program may continue to be serviced by private servicing organizations, but the majority of these loans have been sold to ED as part of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA); private lenders providing federal loans under the FFEL Program were afforded the ability to sell (or PUT) loans to ED as a means to ensure lender liquidity and students continued access to federal loans. PUT loans and those originated through the Direct Loan Program are now serviced by ED s preferred student loans servicers and are subject to the servicing requirements under ED s contractual arrangements. In addition to ED s servicing efforts, we have student loan default management initiatives at all of our schools that participate in Title IV Programs aimed at reducing the likelihood of our students failure to repay their loans in a timely manner. These initiatives emphasize the importance of students compliance with loan repayment requirements and provide for extensive loan counseling and proactive communication with students after they cease enrollment.

If any of our schools were to lose eligibility to participate in Title IV Programs due to student loan default rates being higher than ED s thresholds and we could not arrange for adequate alternative student financing sources, we would most likely have to close those schools, which could have a material adverse effect on our student population, financial condition, results of operations and cash flows.

COHORT DEFAULT RATE TABLE

School, Main Campus Location	**Cohort Default Rate (2 year rate)**		
(Branch campuses are in parentheses)	**2008**	**2007**	**2006**
American InterContinental University			
Hoffman Estates, IL (Online) *(Atlanta, GA; Weston, FL; Houston, TX; London, England)*	12.3%	10.4%	8.6%
Briarcliffe College			
Bethpage, NY (*Patchogue, NY*)	12.1%	8.5%	7.1%
Brooks Institute			
Santa Barbara, CA	4.4%	0.3%	1.7%
Brown College			
Mendota Heights, MN	3.4%	4.9%	6.1%
California Culinary Academy			
San Francisco, CA	2.5%	4.1%	4.3%
Colorado Technical University			
Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*)	12.4%	10.9%	11.3%
Gibbs College of Boston, Inc, a private two-year college			
Boston, MA	11.4%	11.2%	12.5%
Harrington College of Design			
Chicago, IL	4.1%	2.9%	1.7%

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School, Main Campus Location (Branch campuses are in parentheses)	Cohort Default Rate (2 year rate) 2008	2007	2006
International Academy of Design & Technology			
Chicago, IL (*Troy, MI; Schaumburg, IL*; *Nashville, TN; Collins College*, *Phoenix, AZ*)	7.7%	6.0%	7.7%
Tampa, FL *(Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts (Orlando); Sanford-Brown College, Portland, OR)*	8.3%	7.7%	6.0%
Le Cordon Bleu College of Culinary Arts			
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL and Hazelwood, MO)*	6.7%	7.2%	8.4%
Pasadena, CA *(Hollywood, CA; Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL; and Skokie, IL and Sanford-Brown Institute, Orlando, FL)*	2.0%	3.2%	3.7%
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	5.5%	5.9%	5.5%
Scottsdale, AZ (includes Online) (*Las Vegas, NV)*	4.8%	6.7%	5.1%
Le Cordon Bleu College of Culinary Arts in Chicago			
Chicago, IL	3.5%	5.9%	7.0%
Le Cordon Bleu Institute of Culinary Arts			
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc., a private two year college (Boston Campus); Le Cordon Bleu College of Culinary Arts, Miramar, FL)*	6.5%	6.3%	5.2%
Missouri College			
Brentwood, MO	4.1%	3.8%	7.7%
Sanford-Brown College			
Atlanta, GA *(Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA)*	9.8%	8.9%	10.0%
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	12.5%	9.0%	9.1%
Farmington, CT	13.4%	10.9%	7.8%
Fenton, MO (*St. Peters, MO)*	7.0%	7.3%	6.2%
McLean, VA	10.1%	12.3%	14.3%
Sanford-Brown Institute			
Cranston, RI	13.6%	11.0%	7.3%
Jacksonville, FL *(Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)*	7.9%	7.9%	6.1%
Pittsburgh, PA *(Monroeville, PA)*	6.5%	9.1%	8.0%
White Plains, NY	9.2%	13.0%	12.7%
SBI Campus an Affiliate of Sanford-Brown			
Melville, NY	5.9%	10.2%	9.7%

Financial Responsibility Standards. To participate in Title IV Programs, an institution must satisfy specific financial responsibility measures as prescribed by ED. ED evaluates institutions for compliance with these standards each year, based on the annual audited financial statements of an institution or its parent corporation, and on a change of control of an institution. ED s practice is to measure our financial responsibility based on both CEC s consolidated financial statements and those of our individual schools.

To be considered financially responsible, an institution must, among other things, (i) have sufficient cash reserves to make required refunds, (ii) be current on its debt payments, (iii) meet all of its financial obligations, and (iv) achieve a composite score of at least 1.50 based on the institution s annual financial statements. ED

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calculates an institution s composite score, which may range from -1.00 to 3.00, based on a combination of financial measures designed to establish the adequacy of an institution s capital resources, its financial viability, its ability to support current operations and its ability to generate a profit. An institution that does not meet ED s minimum composite score of 1.00 may demonstrate its financial responsibility in one of several ways, including posting a letter of credit in favor of ED in an amount equal to at least 50% of Title IV Program funds received by the institution during its prior fiscal year or posting a letter of credit in an amount equal to at least 10% of Title IV Program funds received by the institution during its prior fiscal year and agreeing to certain additional requirements for the continued receipt of Title IV Program funds, including, in certain circumstances, receipt of Title IV Program funds under an agreement other than ED s standard advance funding arrangement.

Currently, none of our schools are required to post a letter of credit or accept other conditions on its participation in Title IV Programs due to failure to satisfy ED s financial responsibility standards.

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

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

Institutions are required to return such funds within 45 days of the date the institution determines that the student has withdrawn. An institution that is found to be in non-compliance with ED refund requirements for either of the last two completed fiscal years must post a letter of credit in favor of ED in an amount equal to 25% of the total Title IV Program refunds paid by the institution during its prior fiscal year. As of December 31, 2010, we have posted no letters of credit in favor of ED due to non-compliance with ED refund requirements.

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

When we acquire an institution that is eligible to participate in Title IV Programs, that institution undergoes a change of ownership resulting in a change of control as defined by ED. Each of our acquired schools in the

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U.S. has undergone a certification review under our ownership and has been certified to participate in Title IV Programs on a provisional basis, per ED requirements, until such time that ED signs a new Program Participation Agreement with the institution. Currently, none of our schools are subject to provisional certification status due to ED s change of ownership criteria. The potential adverse effects of a change of control under ED regulations may influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our common stock.

Opening New Schools, Start-up Branch Campuses, and Adding Educational Programs. HEA generally requires that proprietary institutions be fully operational for two years before applying to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish a start-up branch campus and participate in Title IV Programs at the start-up branch campus without reference to the two-year requirement if the start-up branch campus has received all of the necessary state and accrediting agency approvals, has been reported to ED, and meets certain other criteria as defined by ED. Nevertheless, under certain circumstances, a start-up branch campus may also be required to obtain approval from ED to be able to participate in Title IV Programs. Similarly, an institution that is eligible to participate in Title IV Programs may generally add a new educational program and disburse Title IV Program funds to students enrolled in that new program without ED approval if the new program leads to an associate level or more advanced degree and the institution already offers programs at that level, or if the new program prepares students for gainful employment in the same occupation or a related occupation as an educational program that has previously been designated as an eligible program at the institution and meets minimum length requirements. Otherwise, the institution must obtain ED s approval before it may disburse Title IV Program funds to students enrolled in the new program.

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

90-10 Rule. Under a provision of HEA commonly referred to as the 90-10 Rule, a proprietary institution that fails to derive at least 10% of cash received from non-Title IV sources at the end of a fiscal year will be placed on provisional participation status for one fiscal year. However, if the institution does not satisfy the 90-10 rule for two consecutive fiscal years, it loses its eligibility to participate in Title IV programs for at least two fiscal years. If an institution violated the 90-10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, ED would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility. As of December 31, 2010, approximately 18% of our U.S. schools cash receipts from tuition payments, in the aggregate, were derived from non-Title IV sources.

Administrative Capability. ED regulations specify extensive criteria that an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV Programs. These criteria relate to, among other things, institutional staffing, operational standards, timely submission of accurate reports to ED and various other procedural matters. If an institution fails to satisfy any of ED s criteria for administrative capability, ED may require the repayment of Title IV program funds disbursed by the institution, place the institution on provisional certification status, require the institution to receive Title IV Program funds under an agreement other than ED s standard advance funding agreement while being provisionally certified, or commence a proceeding to impose a fine or limit, suspend or terminate the participation of the institution in Title IV programs.

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Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments. An institution participating in Title IV Programs cannot provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance. ED s laws and regulations regarding this rule do not establish clear criteria for compliance in all circumstances. If ED determined that an institution s compensation practices violated these standards, ED could subject the institution to monetary fines, penalties or other sanctions.

Eligibility and Certification Procedures. Under the provisions of HEA, an institution must apply to ED for continued certification to participate in Title IV Programs at least every six years or when it undergoes a change of control, as discussed above. ED may place an institution on provisional certification status if it finds that the institution does not fully satisfy all required eligibility and certification standards. Provisional certification does not generally limit an institution s access to Title IV Program funds. ED may withdraw an institution s provisional certification without advance notice if ED determines that the institution is not fulfilling all material requirements. In addition, an institution must obtain ED approval for certain substantial changes in its operations, including changes in an institution s accrediting agency or state authorizing agency or changes to an institution s structure or certain basic educational features.

Currently, Briarcliffe College and Gibbs College Boston remain on provisional certification with ED. Briarcliffe College is on provisional certification due to ongoing open ED program reviews and is working closely with ED to become recertified by mid-2013. Gibbs College Boston is on provisional certification due to administrative capability and is also working with ED to become recertified by mid-2013. Provisional certification for both Briarcliffe College and Gibbs College Boston will expire on June 30, 2013.

OTHER INFORMATION

Our website address is *www.careered.com*. We make available within the Investor Relations portion of our website under the caption Financial Information, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, including any amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (SEC). Materials that we file or furnish to the SEC may also be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet site at *www.sec.gov* that contains reports, proxy and information statements, and other information that we file electronically with the SEC.

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

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

Federal regulatory requirements cover virtually all phases of the operations of our U.S. schools and those of our competitors, including educational program offerings, facilities, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, financial aid to students, acquisitions of or opening new institutions, addition of new educational programs, and changes in corporate structure and ownership. The U.S. Department of Education (ED) is our primary federal regulator, pursuant to the Higher Education Act of 1965, as amended (HEA).

A significant portion of our U.S.-based students rely on student aid and loan programs under Title IV of HEA (Title IV Programs) and we derive a substantial portion of our revenue and cash flows from Title IV Programs.

All of our U.S. schools participate in Title IV Programs and so are subject to extensive regulation by ED, various state agencies and accrediting commissions. To participate in Title IV Programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by ED, and be certified by ED as an eligible institution. Most ED requirements are applied on an institutional basis, with an institution defined by ED as a main campus and any of its branch campuses or additional locations. Each institution is assigned an identification number known as the OPEID, or Office of Postsecondary Education Identification number, with each institution s branches and other locations assigned to the institution s OPEID. For the fiscal year ended December 31, 2010, approximately 90% of the Company s U.S.-based students who were in a program of study at any date during that year participated in student aid and loan programs under Title IV, which resulted in cash receipts recorded by the Company of approximately $1.88 billion.

The following are some of the most significant regulatory requirements and risks related to governmental and accrediting body oversight of our schools:

Student Loan Default Rates. Our U.S. schools may lose their eligibility to participate in Title IV Programs if their student loan default rates are greater than the standards set by ED. If the rates at which our former students default on repaying their federally guaranteed or federally funded student loans exceed ED-specified percentages, one or more of our schools could be placed on provisional certification status by ED or lose eligibility to participate in Title IV Programs for several years.

Financial Responsibility Standards and Return and Refunds of Title IV Funds. We may be required to post a letter of credit or accept other limitations, including operating restrictions, to continue our U.S. schools participation in Title IV Programs if we or our schools do not meet ED s financial responsibility standards or if our schools do not correctly calculate and timely return Title IV Program funds for students who withdraw before completing their program of study. ED applies its quantitative financial responsibility tests annually based on the school s audited financial statements and may apply the tests if a school undergoes a change in control or under other circumstances. ED also may apply the tests to us, as the parent company of our schools, and to other related entities. ED s operating restrictions include transferring institutions to a cash-monitoring system or reimbursement instead of ED s standard advance funding of Title IV funds, which may result in a significant delay in receiving the funds.

90-10 Rule. Any of our U.S. schools or OPEID s may lose eligibility to participate in Title IV Programs if, on a cash basis, the percentage of the cash receipts derived from Title IV Programs for two consecutive fiscal years is greater than 90%. Under HEA s 90-10 Rule, an OPEID that fails to

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derive at least 10% of its cash receipts from non-Title IV sources at the end of a fiscal year will be placed on provisional participation status for its next fiscal year. If the OPEID does not satisfy the 90-10 Rule for two consecutive fiscal years, it loses its eligibility to participate in the Title IV Programs for at least two fiscal years. If the OPEID violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility. Effective July 1, 2008, the annual unsubsidized Stafford loans available for undergraduate students under the FFEL program increased by $2,000. The HEOA contains temporary 90-10 rule relief from recent increases in the availability and amount of federal aid for, among other things, all unsubsidized Stafford loans disbursed before July 1, 2011, permitting the $2,000 of additional Stafford loan availability to be counted as revenue not derived from Title IV Programs. This increase, recent increases in grants from the Pell program and other Title IV loan limits and the expiration of the temporary relief in the HEOA later this year and lack of clarity regarding technical aspects of the rules application to calculation methodology, could affect our schools ability to continue to meet the 90-10 rule in future years.

Administrative Capability. Limits may be placed on our U.S. schools participation in Title IV Programs if they fail to satisfy ED s administrative capability standards that cover staffing, procedures for disbursing and safeguarding Title IV funds, reporting and other procedural matters. If a school fails to meet these criteria, ED may require repayment of previously disbursed Title IV Program funds, place the school on provisional certification status, or transfer the school from ED s advance funding arrangement to another funding program, impose fines, or limit or terminate the school s participation in Title IV Programs.

Restrictions on Incentive Payments. Our U.S. schools are subject to sanctions if payments of impermissible commissions, bonuses or other incentive payments are made to individuals involved in certain student recruiting, admissions or financial aid activities.

Eligibility and Certification Procedures. From time to time certain of our schools may be on provisional certification with ED due to a failure to meet ED s criteria discussed above. ED may require corrective actions as discussed above, to and including limiting or terminating a school s participation in Title IV Programs. Any such failure of our schools to maintain eligibility for Title IV programs that leads to corrective actions or other limits on our schools participation in Title IV Programs could increase our costs of regulatory compliance and could have a material adverse impact on our financial condition, results of operations and cash flows.

Audits. HEA also requires that an institution s administration of Title IV Program funds be audited annually by an independent accounting firm and that the resulting audit report be submitted to ED for review. In addition, if ED or another regulatory agency determined that one of our schools improperly disbursed Title IV Program funds or violated a provision of HEA or ED s regulations, that school could be required to repay such funds, and could be assessed an administrative fine.

ED s program integrity regulations could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

The agencies that regulate our U.S. schools, including ED, periodically revise their requirements and modify their interpretations of existing requirements.

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to state authorization, gainful employment, compensation rules for persons engaged in certain aspects of admissions and financial aid, determination of attendance and definition of credit hours. With one exception, these regulations will become effective July 1, 2011. ED previously announced that it was delaying until early 2011 publication of final regulations on certain further proposed gainful employment regulations, which are expected to become effective on July 1, 2012 or thereafter.

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The October 29, 2010 regulations contain changes from the proposed regulations issued by ED in June 2010. The Company continues to analyze the final regulations, to identify and assess potential impacts to our business and to consider and evaluate various strategies to address those potential impacts. These new and pending regulations could have significant impacts on our business. Among the most significant regulatory changes that we have identified to date for our business are:

- the elimination of certain safe harbors that had allowed, under limited and prescribed circumstances, payment of certain types of compensation to employees (including higher level employees) and third parties involved in student enrollment, certain recruiting, admissions or financial aid activities;

- imposition of extensive record-keeping and disclosure requirements respecting the employment of graduates, as a precursor to proposed gainful employment regulations, described above, that would base the eligibility of specific programs to enroll students receiving Title IV Program funds on certain yet-to-be defined metrics including but not limited to cost of education, future earnings, student loan defaults and debt incurred in the securing of such education;

- defining a credit hour for purposes of determining program eligibility for Title IV student financial aid;

- establishing more stringent state approval criteria that may require or encourage states to modify existing state approval and licensing processes;

- requiring an institution that offers distance learning programs to secure the approval of each state where it enrolls students to the extent any such state requires such approval and provide evidence of such approval to ED upon request; and

- strengthening the definition of proscribed misrepresentation to include, among other things, erroneous statements, including erroneous statements made by certain third-party vendors under contract to an institution, which may increase institutional liability and subject institutions to sanctions for statements containing inadvertent errors, and expose institutions to costly third-party litigation.

These rules are likely to require us to change certain of our business practices, incur costs of compliance and of developing and implementing changes in operations, may affect student recruitment or enrollment, may result in changes in or elimination of certain programs and may have other significant or material effects on our business. Among other things, these rules will impact or have impacted:

- Our compensation programs for persons (including higher level employees) involved in student recruitment and admissions, including third-party lead generators and internet marketing vendors, which may adversely affect:

  - our ability to compensate our employees involved in recruitment, admissions and student aid based on relative merit,

  - recruitment and retention of such employees,

  - the motivation and effectiveness of such employees,

  - our ability to provide certain forms of compensation to management, impacting recruitment and retention,

- compensation practices for third-parties for Internet marketing and lead-generation services,

- quality of leads generated by these third-party service providers and increased cost for leads,

- our marketing costs, by decreasing marketing efficiency and through increasing costs of recruiting and enrolling prospective students, and

- our revenues, if we are unable to maintain or increase the rate of student enrollments.

We are terminating certain compensation payments to our affected employees and are implementing changes in contractual or other arrangements with third parties to change payments allowed with the former safe harbors related to compensation.

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Our schools offering distance learning are in the process of submitting and expect to have submitted additional applications for licensures or exemptions for their distance learning programs before the end of March, 2011. At this time, the impact and potential costs of these regulations on our schools is uncertain but will increase our costs of regulatory compliance, will likely delay the introduction of new programs and have other material adverse effects on our operations, revenues, results of operations and cash flows.

If final gainful employment regulations are issued and become effective in July 2012 or thereafter, certain of our programs, primarily our Culinary Arts and Art and Design programs, may be unable to maintain eligibility to enroll students receiving Title IV Program funds or have restrictions placed upon program offerings as a result of not meeting certain prescribed metrics. Such loss of or restrictions to program eligibility may result in us determining to terminate or modify the affected programs under our current business model, and also result in a realignment on the types of educational programs we offer in order to comply with the new rules. For example, we will change our Culinary Arts operating model in early 2011 to position us better to potentially appeal to an even broader market and respond to the regulatory environment. If we are required to implement a number of such changes to comply with gainful employment regulations, these changes could have a material adverse impact on our enrollments, business, financial condition, results of operation, cash flows and value of our common stock.

We cannot predict with certainty the impact of the regulations issued on October 29, 2010 on our operations and cannot predict the outcome of the proposed gainful employment rules that are expected to be issued in early 2011. The costs to comply with these regulations, and the investment associated with our continuing focus on enhancing the quality of student services in order to prepare students for success in their chosen careers, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Nor can we predict the effect of other legislative or regulatory changes by federal, state or other agencies regulating our education programs or other aspects of our operations, how any resulting regulations will be interpreted or whether we and our schools will be able to comply with these requirements in the future. Any such actions by other bodies that affect our programs and operations could have a material adverse effect on our student population, our business, financial condition, results of operations and cash flows.

The U.S. Congress has recently commenced hearings and other examinations of the for-profit educational sector that have resulted in adverse publicity for the for-profit postsecondary education sector and could result in legislation, ED rulemaking, restrictions on Title IV program participation by proprietary schools, litigation or other actions that may materially and adversely affect our business.

Both the U.S. House of Representatives Education and Labor Committee and the U.S. Senate Health, Education, Labor and Pensions Committee (HELP Committee) commenced a series of hearings into the for-profit postsecondary education sector in June 2010, including accreditation matters, student debt, student recruiting, student success and outcomes, and other matters. The U.S. Senate also released a report, Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education . The Chairmen of each of these education committees, together with other members of Congress, requested the Government Accountability Office (GAO) to conduct a review and prepare a report with recommendations regarding various aspects of the proprietary sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in federal student aid programs and the degree to which proprietary institutions revenue is composed of Title IV and other federal funding sources. In addition, in August 2010, the HELP Committee requested information from 30 companies operating for-profit schools, including us and other for-profit publicly traded companies providing postsecondary education services. CEC is working with the HELP Committee to provide the requested information. These activities are not formally related to ED s rulemaking processes. However, these hearings, the requested GAO review and the HELP Committee s information request could affect ED s rulemaking on any remaining program integrity issues, including gainful employment, or lead to additional new ED regulatory requirements, negative media coverage, federal or other investigations of the for-profit postsecondary education industry, or third-party litigation related to information arising from these activities.

We cannot predict the extent to which, or whether, these activities could result in legislation or further rulemaking affecting our participation in Title IV Programs, or result in other events that could affect aspects of our business. If any laws or regulations are adopted that limit or terminate our participation in Title IV Programs or the amount of student financial aid for which our students are eligible, our business could be adversely and materially impacted.

Government agencies, regulatory agencies and third parties may conduct compliance reviews and audits, bring claims or initiate litigation against us based on alleged noncompliance with, or violations of, the extensive regulatory requirements applicable to us, and could require us to refund amounts received under Title IV Programs or state financial aid programs or impose monetary damages, sanctions or impose significant limitations on our operations. We may be required to expend significant resources to defend against those claims.

Government and regulatory agencies and third parties may bring actions against us based on alleged violations of the extensive regulatory requirements applicable to us, alleged misrepresentations and other claims. While our compliance programs are extensive and emphasize individual and organizational responsibility for compliance, as well as employing technological compliance controls, it is possible for a single employee to engage in non-compliant behavior or make statements that violate some aspect of the extensive regulations governing our schools and business. Any alleged or other purported misrepresentations or actual infractions could result in (a) imposition of monetary fines or penalties, (b) repayment of funds received under Title IV Programs or state financial aid programs, (c) restrictions on or termination of our U.S. schools eligibility to participate in Title IV Programs or state financial aid programs, (d) limits on, or result in termination of, our U.S. schools operations or ability to grant degrees and certificates, (e) restriction or revocation of our U.S. schools accreditations, (f) limit our ability to open new schools or offer new programs, (g) costly adversarial proceedings, or (h) civil or criminal penalties being levied against us or our schools. Any one of these outcomes could materially adversely affect our financial condition, results of operations, and cash flows or result in the imposition of significant restrictions on us and our ability to operate. We may also be required to expend significant resources defending against such claims.

Due to their participation in Title IV programs, our schools and universities are subject to periodic program reviews and audits by ED for the purpose of evaluating an institution s compliance with Title IV requirements, identifying any liabilities to ED caused by errors in compliance, and improving future institutional capabilities. As previously disclosed, ED conducted a program review of AIU in November 2009. On July 14, 2010, AIU received a copy of ED s Program Review Report, which is a preliminary report of ED s findings from its program review. The Program Review Report identified six findings, two of which were deemed to be systemic findings by ED s program review team. These two findings relate to AIU s policy for determining student attendance in online courses for purposes of determining such students enrollment status, withdrawal dates and associated timing respecting the return of unearned Title IV funds. Based on information available to us as of the date of filing this Annual Report on Form 10-K, we cannot determine a range of loss for these findings or assess whether an unfavorable outcome could have a material adverse effect on our business, results of operations, cash flow or financial position. The remaining findings were isolated and generally relate to processing errors. We believe the amounts involved in these four findings are immaterial. AIU submitted its response to ED s Program Review Report on November 29, 2010. In addition, ED s Office of Inspector General audit services division commenced a compliance audit of CTU in June 2010, covering the period July 1, 2009 to June 30, 2010, to determine whether CTU has policies and procedures to ensure that CTU administers Title IV and other federal program funds in accordance with applicable federal regulations. This compliance audit remains ongoing.

While we believe that our schools operate in substantial compliance with applicable statutes and regulations, we cannot predict the outcome of these matters, and any unfavorable outcomes could have a material adverse effect on our business, results of operations, cash flows and financial position. See Note 12 Commitment and Contingencies Accrediting Body and State and Federal Regulatory Matters of the notes to our consolidated financial statements for further discussion of certain of these matters.

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

Our schools are subject to extensive state-level regulation and oversight by state licensing agencies, whose approval or exemption is necessary to allow an institution to operate and grant degrees or diplomas. State laws vary from state to state, but generally establish standards for faculty qualifications, the location and nature of facilities, financial policies, new programs and student instruction, administrative staff, marketing and recruitment and other operational and administrative procedures. Any failure of one of our U.S. schools to maintain state authorization would result in that school being unable to offer educational programs and students attending the campus being ineligible for Title IV Programs. State legislatures often consider legislation affecting regulation of postsecondary educational institutions; enactment of this legislation and ensuing regulations, or changes in interpretation of existing regulations, may impose substantial costs on our schools and require them to modify their operations in order to comply with the new regulations.

Additionally, the October 29, 2010 regulations impose requirements on states with regard to their licensure and authorization of postsecondary institutions such as those operated by us. States that do not currently have an approval framework that meets ED requirements will need to modify their authorization and licensure requirements in order for them to maintain their eligibility to participate in Title IV Programs. State regulatory changes and approval and exemption processes can be lengthy and may be made more difficult and time consuming as a result of state budget challenges, increased pressures on states caused by new federal regulations and staffing shortages. These new requirements go into effect July 1, 2011, and will require our schools to act quickly to a changing state regulatory landscape as it adapts to the new guidelines imposed by ED.

The October 29, 2010 regulations also require that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. These regulations, among other things, may require our schools offering distance education to obtain state approvals or registrations or exemptions from such requirements from additional states which currently or in the future may elect to regulate institutions that enroll the relevant states residents in online programs and courses. State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear, and the interpretation of such regulations is generally left to the discretion of state employees or agents and may not be reflected in any written policy. In response to the new ED rules, states that do not presently regulate delivery of online courses and programs may enact legislation or issue regulations or interpret existing regulations to specifically address online educational programs, such as those offered by our schools, may enact or issue regulations impacting the availability of exemptions from licensure in certain states, or otherwise affect our schools operations. Our schools offering distance learning are in the process of submitting and expect to have submitted additional applications for licensures or exemptions for their distance learning programs before the end of March, 2011. We believe there are a lot of other institutions that have or will be submitting similar applications and can not anticipate how quickly the state agencies, some of whom we believe are taxed by resource shortages, will be able to respond to the applications. If one of our schools offering distance learning does not have the appropriate state approvals for its online programs, it may not be able to continue to offer distance education to students in those states until it obtains the additional approvals or exemptions which could have a material impact on our business, financial condition, results of operations, cash flows and the value of our common stock.

We and our schools also are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance and litigation by ED and federal and state regulatory agencies, accrediting agencies, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards or other regulatory requirements applicable to us or our schools.

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If the results of any such audits, reviews, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, or other civil or criminal penalties. From time to time, we may have such matters pending against us respecting one or more of our schools, and as such, they would be discussed in Note 12 Commitments and Contingencies Accrediting Body and State and Federal Regulatory Matters to our consolidated financial statements.

Even if we maintain compliance with applicable governmental and accrediting body regulations, increased regulatory scrutiny or adverse publicity arising from allegations of non-compliance may increase our costs of regulatory compliance and adversely affect our financial results, growth rates and prospects.

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

If one or more of our schools fails to maintain institutional accreditation, if one or more of our accrediting agencies loses recognition by ED, or if certain of our programs cannot obtain or maintain programmatic accreditation, our schools could lose their ability to participate in Title IV Programs, and our growth prospects, reputation and financial condition could be materially adversely affected.

In the U.S., accrediting agencies periodically review the academic quality of an institution s instructional programs and its administrative and financial operations to ensure that the institution has the resources to perform its educational mission. ED relies on accrediting agencies to assess whether an institution s educational programs qualify the school to participate in Title IV Programs.

Furthermore, many states and professional associations require professional programs to be accredited, and require individuals who must pass professional license exams to have graduated from accredited programs. While programmatic accreditation is not a sufficient basis to qualify for institutional Title IV Program certification, programmatic certification assists program graduates to practice as professionals or otherwise seek employment in their chosen field. Those of our programs that do not have such programmatic accreditation, or fail to maintain such accreditation, may experience adverse publicity, declining enrollments, or other materially adverse impacts, which could result in it being impractical for us to continue offering such programs.

If one of our schools or programs were to be placed on probationary accreditation status or failed to qualify for or maintain accreditation, we would likely experience adverse publicity, impaired ability to attract and retain students and substantial expense to obtain unqualified accreditation status. Any loss of institutional accreditation would result in a loss of Title IV Program funds for the affected school and its students. Such events could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Our participation in Title IV Programs is dependent on ED continuing to recognize the accrediting agencies that accredit our colleges and universities. The standards and practices of these agencies have recently become a focus of attention by ED. If ED ceased to recognize a particular accrediting agency for any reason, our schools that are accredited by that accrediting agency would not be eligible to participate in Title IV Programs beginning 18 months after the date such recognition ceased, unless that accrediting agency was again recognized or our schools that are accredited by that accrediting agency were accredited by another accrediting body recognized by ED. If our schools that are accredited by that accrediting agency became ineligible to participate in Title IV programs, our business, financial condition, results of operations and cash flows would be materially adversely affected. Furthermore, the recent focus by the Office of Inspector General and ED on accrediting bodies may make the accreditation review process more challenging for all of our schools when they undergo their normal accreditation review processes in the future or may lead to ED ceasing to recognize certain accrediting bodies. If

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this occurred, our schools may have to incur additional costs and/or curtail or modify certain program offerings in order to maintain their accreditation, or become accredited by another accrediting body recognized by ED, which could increase our schools operational costs, reduce their enrollments and materially adversely affect our business and results of operations.

Increased scrutiny by Congress and various governmental agencies regarding student loan activities have produced uncertainty concerning restrictions applicable to administration of Title IV Programs, the funding for those programs, and student lending activities. If these uncertainties are not satisfactorily or timely resolved, we may face increased regulatory burdens and costs or experience adverse impacts on our student enrollment. Investigations, claims, and actions against us and other postsecondary education providers could adversely affect our reputation, revenues, financial results and stock price.

We and other postsecondary education providers have been subject to increased regulatory scrutiny and litigation in recent years concerning student lending. State attorneys general, ED, the U.S. Congress and other parties have increasingly focused on student loan programs, including Title IV Programs, investigating allegations of conflicts of interest between some institutions and lenders that previously provided Title IV loans, lenders providing questionable incentives to schools or school employees, claims of deceptive marketing practices for student loans, and schools steering students to specific lenders. Several institutions and lenders have been cited for these problems and have made monetary payments to settle those claims. A number of schools, including our schools, have entered into codes of conduct regarding student referrals to lenders in various states.

In response to allegations on student loan programs, Congress has passed new laws, ED has enacted stricter regulations, and several states have adopted codes of conduct or enacted state laws that further regulate the conduct of lenders, schools, and school personnel. The Health Care and Education Reconciliation Act of 2010 (HCERA), which took effect on July 1, 2010, eliminated the bank-based Federal Family Education Loan Program and all new federal student loans are being made through ED s William D. Ford Direct Loan Program. Under the Direct Loan Program, students borrow directly from ED instead of from banks, with ED s private sector partners disbursing, servicing and collecting the loans.

Criticisms of the overall student lending and postsecondary education sectors may impact general public perception of educational institutions, including us, in a negative manner. Adverse media coverage regarding other educational institutions or regarding us directly could damage our reputation. The environment surrounding access to and cost of student loans remains in a state of flux. The uncertainty surrounding these issues, and any resolution of these issues that increases loan costs or reduces students access to Title IV loans or to student extended payment plans such as the ones we make available to our students, could reduce student demand for our programs, adversely impact our revenues and operating profit or result in increased regulatory scrutiny.

Risks Related to Our Business

We, and our business model, are subject to risks relating to enrollment of students. If we are not able to continue to successfully recruit and retain our students, our financial results could be materially adversely affected.

Our business model depends on student recruitment and retention by our admissions counselors and our ability to attract and retain students at our schools through marketing, including use of third-party Internet lead generators. Our admissions representatives are responsible for identifying individuals interested in enrolling in our campuses. Admissions representatives serve as prospective students primary contacts, providing information to help them make informed enrollment decisions and assisting students with completing the enrollment process. ED s new incentive compensation rules eliminate safe harbors allowing payment of certain compensation to our admissions advisors, financial aid advisors and certain third parties. We have changed the pay practices for these employees and are in process of changing contractual or other pay practices for third parties engaged in these efforts on our behalf, although there remains uncertainty under the new regulations as to what constitutes permissible pay practices. These changes, any new regulatory interpretation or guidance regarding these regulations, or any new legislation or rules impacting our recruiting practices, may result in employee retention

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issues, increased operating and marketing costs to identify prospective students, decreased enrollments or other impacts leading to changes in our business model, or other events that could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Changes in the sources and amounts of student financial aid, restrictions on student debt repayment options, or a significant increase in financing costs for our students, could reduce our enrollments, and have a material adverse effect on our student population, revenue and financial results.

The recent recession in the U.S. economy and HCERA are impacting students ability to finance their postsecondary educations, including limiting access to financial aid from sources other than Title IV funds. The recent recession caused many lenders, including lenders that previously provided Title IV loans to our students, to cease providing Title IV loans to students. Because HCERA eliminates fees paid to private banks to act as intermediaries in providing loans to college students, eliminated the FFEL program, and required schools to transition to the federal direct loan program by July 1, 2010, private lenders are exiting the student loan market. As part of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) private lenders providing federal loans under the FFEL Program were afforded the ability to sell (or PUT) loans to ED as a means to ensure lender liquidity and students continued access to federal loans. These PUT loans would ultimately be transferred for servicing by ED preferred student loan servicers. Initial review of reporting provided by ED related to PUT loan repayment performance has demonstrated a combination of record keeping errors and an increase in default rates relative to FFEL serviced loans during the same period. In addition to PUT loans serviced by ED s preferred servicers, ED is now responsible for originating and servicing all new federal student loans through the federal direct loan program. Given early indications of servicing performance related to Direct Loans, student repayment risk may increase as a result of the transition causing an impact to our institutions Cohort Default Rates which in turn could affect our institutions ability to maintain eligibility for Title IV Programs and could have a material adverse impact on our business, financial condition, results of operations and cash flows.

These changes may result in higher administrative costs for schools, including us, related to student loan administration and extending student extended payment plans or grant programs to those students unable to timely replace student loan programs currently in place with exiting lenders. If the costs of Title IV loans increase and if availability of alternate student financial aid and payment plans decrease, students may decide not to enroll in a postsecondary institution, which could have a material adverse effect on our enrollments, revenues and results of operations.

We have implemented funding programs that will assist our students in continuing their program of study. We have provided payment plans directly to certain students to ensure that they can finish their current educational programs with us and to allow new students to attend our schools. As of December 31, 2010, we have committed to approximately $85.4 million of funding through student extended payment plans. This commitment is generally based upon an estimate of the amount of additional financial aid needed by the student for a given academic year, less an anticipated cancellation rate for those plans that are later reduced or cancelled out entirely. This estimated amount could vary materially from what is ultimately provided to our students. The Company expects to commit up to an additional $20 million of extended payment plan funding to current students to assist them as they complete their course of study. The Company has decided to no longer offer extended payment plans to new students, other than to a very small portion of our business. As of December 31, 2010, the amount of earned student receivables under student extended payment plans, net of allowance for doubtful accounts and net of deferred tuition revenue, was $9.0 million. The repayment risk associated with these extended payment plans has been higher than the risk associated with non-extended payment plan student receivables as evidenced by the historical repayment practices. Factors that may contribute to this higher risk of repayment include: the repayment period, which is typically up to ten years, the credit history of the student that is offered an extended payment plan as well as the overall economic environment. As of December 31, 2010, the Company is providing an allowance for doubtful accounts as student receivables related to these plans are recorded. The allowance rate being applied is seventy-five percent, which is based upon historical repayment practices.

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Any further actions by the U.S. Congress, ED or other regulatory bodies that significantly reduces funding for Title IV Programs or the ability of our students to participate in those programs, that reduces alternate sources of student financial aid, or that restricts our ability to offer student extended payment plans or establishes different or more stringent requirements for our U.S. schools to participate in Title IV Programs or to offer such student extended payment plans, could have a material adverse effect on our student population, course offerings, financial condition, results of operations and cash flows.

Budget constraints in states that provide state financial aid to our students could reduce available financial aid, which could adversely affect our student population. Alternatively, improved state financing may result in increased support for lower-priced public institutions, which may increase competition for students.

A significant number of states in which our schools operate face budget constraints that may reduce state appropriations in a number of areas including state student financial aid, but we cannot predict the amount or timing of any such reductions. If state funding for our students decreases and our students are unable to secure alternative sources of funding for their education, our student population could be adversely affected, which could have a material adverse effect on our results of operations, financial condition, and cash flows. Increased state or federal support for public institutions and community colleges, resulting in increased competition for students, also could have a material adverse effect on our results of operations, financial condition and cash flows.

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

We are subject to various lawsuits, investigations and claims covering a range of matters, including, but not limited to, claims made by current and former students and employees of our schools. These claims may include qui tam actions filed in federal court by individual plaintiffs on behalf of themselves and the federal government alleging that we submitted false claims or statements to ED in violation of the False Claims Act. Qui tam actions are filed under seal, and remain under seal until the government decides whether it will intervene in the case. If the government elects to intervene in an action, it assumes primary control of that matter; if the government elects not to intervene; individual plaintiffs may continue the litigation at their own expense on behalf of the government.

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

If we fail to effectively identify, pursue and integrate acquired schools, both in the U.S. and outside of the U.S., our growth could be slowed and our profitability may be adversely affected.

Acquisitions are one component of our overall long-term growth. From time to time, we engage in evaluations of, and discussions with, possible domestic and international acquisition candidates. We may not be able to identify suitable acquisition opportunities, acquire institutions on favorable terms, or successfully integrate or profitably operate acquired institutions. If we use debt to finance future acquisitions or issue securities in connection with future acquisitions, such actions could dilute the holdings of our stockholders.

Because an acquisition is considered a change in ownership and control of the acquired institution under applicable regulatory standards, we must obtain approval from ED, most applicable state agencies and accrediting agencies and possibly other regulatory bodies when we acquire an institution.

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We have in the past, and may in the future, acquire schools in international markets. There may be difficulties and complexities associated with our expansion into international markets, and our strategies may not succeed beyond our current markets. If we do not effectively address these risks, our growth and ability to compete may be impaired.

We must service our student population without overbuilding or over-investing in infrastructure and our online platforms.

Our increasing student enrollments may result in capacity constraints if our schools, particularly on-ground schools, are unable to adequately service the number of students enrolled or seeking to enroll in our programs. We must balance current student populations and projected growth with appropriate levels of investment in real estate and our online platforms in order to effectively manage capacity.

We are subject to the risks inherent in operating in foreign countries.

We operate schools outside of the U.S. and are subject to risks inherent in having non-domestic operations, including unfamiliar statutes and regulations for employees and postsecondary institutions, currency exchange rate fluctuations, limits on repatriation of profits, U.S.-foreign tax treaties and taxing authority, possible economic or political instability in those countries and risks associated with the Foreign Corrupt Practices Act and similar U.S. laws applicable to our operations in foreign markets.

If we fail to effectively identify, establish and operate new schools and new branch campuses of our existing schools, or to offer new educational programs, our growth may be slowed and our profitability may be adversely affected.

As part of our growth strategy, we currently anticipate opening new schools, new branch campuses of our existing schools throughout the U.S. and offering new educational programs. These activities require us to invest in management and capital expenditures, incur marketing and advertising expenses, and devote resources that are different from those required to operate our existing schools. We may be unable to identify or acquire suitable expansion opportunities to help maintain or accelerate our current growth rate, or to successfully integrate a new school or branch campus. Any failure by us to effectively identify, establish and manage the operations of a new school or branch campus could slow our growth and make any newly established school or branch campus more costly to operate than we had planned, which could have an adverse effect on our results of operations.

We need timely approval by applicable regulatory agencies to offer new programs, expand our operations into or within certain states, or acquire additional schools. If those approvals are not timely, we may incur operating expenses (such as lease obligations) for significant time periods before we can enroll students.

To open a new school or branch campus, or to establish a new educational program, we are required to obtain the appropriate approvals from ED and applicable state and accrediting regulatory agencies, which may be conditioned, delayed or denied in a manner that could significantly affect our growth plans. Approval by these regulatory agencies may be negatively impacted due to regulatory inquiries or reviews and any adverse publicity relating to such matters. Also, any adverse action taken by ED regarding its recognition of any accrediting agency that accredits our schools or programs could adversely impact our ability to open a new school or branch campus or establish new educational programs. In addition, to be eligible to participate in Title IV Programs, ED and applicable state and accrediting bodies must certify a new school or branch campus.

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

Increasingly, prospective employers of students who graduate from our schools demand that their new employees possess appropriate technological skills and also appropriate soft skills, such as communication, critical thinking and teamwork skills. These skills can evolve rapidly in a changing economic and technological

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

The loss of our key personnel could harm us.

Our future success depends largely on the skills, efforts and motivation of our executive officers and other key personnel, as well as on our ability to attract and retain qualified corporate managers and our schools ability to attract and retain qualified faculty members and administrators. We face competition in hiring personnel who possess the skill sets that we seek. In addition, key personnel may leave us and subsequently compete against us. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms could adversely affect our results of operations or financial condition.

In addition, to support our growth, we must hire, retain, develop and train qualified admissions representatives who are dedicated to student recruitment. If we are unable to hire, develop and train qualified admissions representatives, the effectiveness of our student recruiting efforts could be adversely affected.

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

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

Our future operating results and the market price of our common stock could be materially adversely affected if we are required to write down the carrying value of nonfinancial assets and nonfinancial liabilities, including long-lived assets, goodwill and intangible assets, such as our trade names.

In accordance with U.S. GAAP, we review our nonfinancial assets and nonfinancial liabilities, including goodwill and indefinite-lived intangible assets, such as our trade names, for impairment on at least an annual basis through the application of fair value-based measurements. Our estimates of fair value for these are based primarily on projected future results and expected cash flows and other assumptions. In the future, if we are required to significantly write down the value of our nonfinancial assets and nonfinancial liabilities, including long-lived assets, goodwill and intangibles, our operating results and the market price of our common stock may be materially adversely affected.

We could experience decreasing enrollments or decreasing growth in our enrollments in our schools due to changing demographic trends in family size, overall declines in enrollment in postsecondary schools, job growth in fields unrelated to our core disciplines, immigration and visa laws, or other societal factors.

A September 2009 NCES report projects that between 2007 and 2018 enrollments in degree-granting postsecondary institutions increasing in a range from a low alternative projection of 9%, or 19.9 million students, to a high alternative projection of 17%, or 21.3 million students. These projected 11-year growth rates are lower

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than the 27% increase NCES reported for the 11-year period 1996-2007 of 14.4 million in 1996 to 18.2 million in 2007. Such a decline in the overall growth rate in the postsecondary education sector would result in increased competition for students for our programs and could impact our ability to attract and retain students and affect our growth rate in enrollments. In addition, the ability of our foreign students to obtain visas for our U.S. and our European schools is important to student recruitment. If we cannot attract new students, or develop new curricula to attract prospective students who seek degrees in fields other than our core disciplines, or accommodate changed immigration or visa rules, we may be unable to maintain and increase our student population or achieve our growth strategies, which could have a material adverse effect on our revenues, results of operations, financial condition and market price of our common stock.

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

Our schools online programs intend to increase student population. To support this growth, we will require more resources, including additional faculty, admissions, academic and financial aid personnel. This growth may place a significant strain on the operational resources of our schools.

Our schools online programs success depends, in part, on our schools ability to expand the content of their programs, develop new programs in a cost-effective manner, maintain good standing with regulators and accreditors, and meet students needs in a timely manner. New programs can be delayed due to current and future unforeseen regulatory restrictions. Furthermore, our regulators may impose additional restrictions or conditions on the manner in which we offer online courses to our students, any one of which could negatively impact our business or results of operations.

Any general decline in internet use for any reason, including security or privacy concerns, cost of internet service or changes in government regulation, could result in less demand for online educational services and inhibit our planned growth in our online programs.

For our online and on-ground campuses, the performance and reliability of program infrastructure is critical to their reputation and ability to attract and retain students. Our delivery of these programs could be hindered by computer system error or failure, significant increase in traffic on our computer networks, or any significant failure or unavailability of our computer networks due to events beyond our control, including natural disasters and network and telecommunications failures. Any interruption to our schools computer systems or operations could have a material adverse effect on the ability of our schools to attract and retain students.

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Due to the sensitive nature of the information contained on our networks hackers may target our networks. We may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. Although we continually monitor the security of our technology infrastructure, we cannot assure that these efforts will protect our computer networks against security breaches.

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

If our schools are unable to successfully market and advertise their educational programs, our schools ability to attract and enroll prospective students in such programs could be adversely affected, and, consequently, our ability to increase revenue or maintain profitability could be impaired. Some of the factors that could prevent us from successfully marketing and advertising our schools and the programs that they offer include, but are not limited to, student or employer dissatisfaction with educational programs and services, diminished access to high school students, our failure to maintain or expand our brand names or other factors related to our marketing or advertising practices, Federal Trade Commission restrictions on internet and other advertising and marketing media, costs and effectiveness of internet and other advertising programs, and changing media preferences of our target audiences.

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

Postsecondary education is a highly fragmented and competitive field. Our schools compete with traditional public and private two-year and four-year colleges and universities, other proprietary schools, other online education providers, and alternatives to higher education, such as immediate employment and military service. Some public and private institutions charge lower tuition for courses of study similar to those offered by our schools due, in part, to government subsidies, government and foundation grants, tax-deductible contributions and other financial resources not available to proprietary institutions. Our competitors may have substantially greater financial and other resources than we do. We expect to experience increased competition as more colleges, universities, and other postsecondary education providers increase their online program offerings. An increase in competition could affect the success of our marketing efforts and enable our competitors to recruit prospective students more effectively, or reduce our tuition charges and increase spending for marketing efforts, which could adversely impact our results of operations, financial condition and cash flows.

Our credit agreement limits our ability to take various actions.

Our credit agreement limits our ability to take various actions, including paying dividends and disposing of assets, and may restrict us from taking actions that management believes would be desirable and in the best interests of us and our stockholders. Our credit agreement also requires us to satisfy specified financial and non-financial covenants. A breach of any of those covenants could result in an event of default under the agreement and allow the lenders to pursue various remedies, including accelerating the repayment of any indebtedness outstanding, any of which could have a material adverse effect on our operations and financial condition.

We are subject to privacy laws and regulations both domestically and in the countries in which our foreign schools operate, due to our collection and use of personal information. Any violations of those laws, or any breach, theft or loss of that information, could adversely affect our reputation and operations.

Our efforts to attract and enroll students result in us collecting, using and keeping substantial amounts of personal information regarding applicants, our students, faculty, their families and alumni, including social security numbers, financial data or health data. We also maintain personal information about our employees in the ordinary course of our activities. Our services, the services of many of our health plan and benefit plan vendors, and other information can be accessed globally through the internet. Our computer networks and those of our vendors that manage confidential information for us may be vulnerable to unauthorized access, theft or misuse, hackers, computer viruses, or third parties in connection with hardware and software upgrades and changes. Our services can be accessed globally via the internet, so we may be subject to privacy laws in countries outside the U.S. from which students access our services, which laws may constrain the way we market and provide our services. While we utilize security and business controls to limit access to and use of personal information, any breach of student or employee privacy or errors in storing, using or transmitting personal information could violate privacy laws and regulations resulting in fines or other penalties. A breach, theft or loss of personal information held by us or our vendors, or a violation of the laws and regulations governing privacy could have a material adverse effect on our reputation or result in additional regulation, compliance costs or investments in additional security systems to protect our computer networks.

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We rely on exclusive proprietary rights and intellectual property that may not be adequately protected under current laws, and we may encounter disputes from time to time relating to our use of intellectual property of third parties.

Our success depends in part on our ability to protect our proprietary rights. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names and agreements to protect our proprietary rights. We rely on service mark and trademark protection in the United States and select foreign jurisdictions to protect our rights to our marks as well as distinctive logos and other marks associated with our services. We cannot assure you that these measures will be adequate, that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate the proprietary aspects of our curricula, online resource material and other content. Our management s attention may be diverted by these attempts, and we may need to use funds in litigation to protect our proprietary rights against any infringement or violation.

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party. Some third party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit.

We may incur liability for the unauthorized duplication or distribution of class materials posted online for class discussions.

In some instances our faculty members or our students may post various articles or other third-party content on class discussion boards or download third-party content to personal computers. We may incur claims or liability for the unauthorized duplication or distribution of this material. Any such claims could subject us to costly litigation and could impose a strain on our financial resources and management personnel regardless of whether the claims have merit.

A protracted economic slowdown and rising unemployment could harm our business, while an improving economy may lead to prospective students choosing to work rather than to pursue postsecondary education at our schools.

We believe that many students pursue postsecondary education to be more competitive in the job market. However, a protracted economic slowdown could increase unemployment and diminish job prospects generally. Diminished job prospects and heightened financial worries could affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. An improving economy and improving job prospects, however, may lead prospective students to choose to work rather than to pursue postsecondary education. As a result, our enrollments could suffer.

We may incur costs in complying with the Americans with Disabilities Act and with similar laws.

The Americans with Disabilities Act of 1990, or ADA, requires all public accommodations to meet federal requirements for access and use by disabled individuals. Other federal, state, and local laws and regulations also may impose similar or additional accessibility requirements. For example, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1991, to be accessible to handicapped persons. Typically, our real estate leases require us to pay any costs necessary to comply with all laws, including these accessibility laws, for our premises, which may include parking areas, restaurants at our culinary schools, dormitory facilities and similar facilities in addition to classroom and office space. In opening new schools or locations and acquiring existing schools, we often must build out the premises to satisfy our

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classroom needs and must incur the costs associated with accessibility compliance in those construction activities. If any of our premises are not compliant with the ADA or FHAA, we could face fines, litigation by private litigants, and orders to correct any non-complying features.

Risk Related to Our Common Stock

The trading price of our common stock may fluctuate substantially in the future.

The trading price of our common stock may fluctuate substantially as a result of a number of factors, some of which are not in our control. These factors include:

- the initiation, pendency or outcome of litigation, accreditation reviews, regulatory reviews and investigations, and any related adverse publicity;
- the outcomes and impacts on our business of ED s program integrity rulemaking program, and other changes in the legal or regulatory environment in which we operate;
- changes in the student lending and credit markets;
- our ability to meet or exceed expectations of analysts or investors;
- quarterly variations in our operating results;
- general conditions in the postsecondary education field, including changes in ED, state laws and regulations and accreditation standards, or availability of student financing;
- changes in our earnings estimates by analysts;
- future impairment of goodwill or other intangible assets;
- price and volume fluctuations in the overall stock market, which have particularly affected the market prices of many companies that provide postsecondary education in recent periods;
- the loss of key personnel; and
- general economic conditions.

These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent an investor from selling shares of our common stock at or above the price at which the investor acquired the shares. In addition, the stock markets, from time to time, experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Effective January 19, 2010, we entered into a real estate lease for our new campus support center and portions of our AIU Online and CTU Online operations in Schaumburg, Illinois, a suburb of Chicago. This consolidation will reduce the number of our leased buildings and related square footage and allow us to maximize efficiencies and reduce overhead expenses. We intend to complete our consolidation efforts from our Hoffman Estates, Illinois locations by March 31, 2011. The lease for the new location creates a $48.1 million real estate obligation through 2022. In addition, we intend to make capital improvements to our new campus support center totaling approximately $52.0 million through 2011, of which approximately $42.2 million has been incurred as of December 31, 2010. The Company expects this consolidation initiative to result in base rent savings of approximately $2.5 million a year for the next twelve years beginning in 2011.

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Our more than 90 campuses are located throughout the United States and in France, Italy, the United Kingdom and Monaco. Each of our campuses contains admissions and administrative offices and teaching facilities, including classrooms, laboratories, and, in the case of campuses with culinary arts programs, kitchens. Also, certain of our campuses include dormitory and cafeteria facilities, and certain of our culinary schools utilize leased space to operate restaurants in conjunction with their culinary arts programs.

Almost all of our campus locations are leased. As of January 31, 2011, we leased approximately 5.9 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to 18 years. As of January 31, 2011, we leased approximately 0.6 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from one to nine years. As of January 31, 2011, we owned approximately 0.2 million square feet of real property at the following campuses:

American InterContinental University and Sanford-Brown College, Houston, Texas	Corporate and Other
Brooks Institute, Santa Barbara, California	Corporate and Other
Le Cordon Bleu College of Culinary Arts in Chicago, Chicago, Illinois	Culinary Arts segment
INSEEC Bordeaux, Bordeaux, France	International segment

See Part I, Item 1 of this Annual Report on Form 10-K for a table listing each of our campus locations. The listing excludes assets of discontinued operations.

We actively monitor our real estate needs in light of our current utilization and projected student enrollment growth. We believe that our schools can acquire any necessary additional facility capacity on reasonably acceptable terms within a relatively short timeframe. We devote capital resources to facility improvements and expansions as we deem necessary to promote growth and to most effectively serve our students.

ITEM 3. LEGAL PROCEEDINGS

Note 12 Commitments and Contingencies of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K is incorporated herein by reference.

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PART II

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

Our common stock is listed on the NASDAQ Global Select Market (NASDAQ) under the symbol CECO.

The following table sets forth the range of high and low sales prices per share for our common stock as reported on the NASDAQ:

	Price Range of Common Stock	
	High	**Low**
2010		
First quarter	$ 33.07	$ 18.21
Second quarter	35.88	22.63
Third quarter	27.93	17.00
Fourth quarter	22.07	16.36
	High	**Low**
2009		
First quarter	$ 26.53	$ 17.06
Second quarter	25.68	17.95
Third quarter	25.73	20.06
Fourth quarter	28.87	20.31

The closing price of our common stock as reported on the NASDAQ on February 15, 2011 was $23.25 per share. As of February 15, 2011, there were 459 holders of record of our common stock.

We have never paid cash dividends on our common stock and have no plan to do so in the foreseeable future. The declaration and payment of dividends on our common stock are subject to the discretion of our Board of Directors. The decision of our Board of Directors to pay future dividends will depend on general business conditions, the effect of a dividend payment on our financial condition, and other factors the Board of Directors may consider relevant. The current policy of our Board of Directors is to reinvest earnings in our operations to promote future growth and, from time to time, to execute repurchases of shares of our common stock under the stock repurchase program discussed below. The repurchase of shares of our common stock reduces the amount of cash available to pay cash dividends to our common stockholders. Our ability to pay cash dividends on our common stock is also limited under the terms of our existing credit agreement.

During 2010, we repurchased approximately 5.4 million shares of our common stock for approximately $154.9 million at an average price of $28.54 per share. Under the Company s previously authorized stock repurchase program, stock repurchases may be made on the open market or in privately negotiated transactions from time to time, depending on factors including market conditions and corporate and regulatory requirements. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. As of December 31, 2010, approximately $290.5 million was available under the stock repurchase program.

On October 18, 2010, our Board of Directors adopted a resolution to retire approximately 15.1 million shares of our treasury stock outstanding. The retirement of our treasury shares effectively reduces the number of shares of our common stock issued and also reduces the number of shares of our common stock held as treasury shares.

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On November 15, 2010, we entered into a stock repurchase plan established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the 1934 Act), in connection with our previously authorized stock repurchase program. A Rule 10b5-1 plan allows a company to repurchase its shares at times when it otherwise might be unable to do so under the 1934 Act s insider trading rules. This stock repurchase plan facilitated purchases of our common stock under our previously authorized stock repurchase program. Purchases of common stock under this plan were subject to specified parameters and certain price and volume restraints as established in the plan. During January 2011, our designated broker repurchased on our behalf an additional 3.7 million shares of our common stock for $79.9 million at an average price of $21.47 per share under this plan. As a result, approximately $210.5 million was available under our previously authorized stock repurchase program to repurchase outstanding shares of our common stock as of January 31, 2011.

Our common stock transfer agent and registrar is Computershare Trust Company, N.A. They can be contacted at 250 Royall Street, Canton, Massachusetts, 02021 or at their website www.computershare.com.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 31, 2009				$ 195,475,395
January 1, 2010 January 31, 2010	1,702,612	$ 23.49	1,702,612	155,475,407
February 1, 2010 February 28, 2010	309,200	27.48	309,200	396,977,868
March 1, 2010 March 31, 2010	1,346,501	30.60	1,346,501	355,771,638
April 1, 2010 April 30, 2010	1,555,145	32.18	1,555,145	305,728,843
May 1, 2010 May 31, 2010	513,749	29.73	513,749	290,454,703
June 1, 2010 June 30, 2010				290,454,703
July 1, 2010 July 31, 2010				290,454,703
August 1, 2010 August 31, 2010				290,454,703
September 1, 2010 September 30, 2010				290,454,703
October 1, 2010 October 31, 2010				290,454,703
November 1, 2010 November 30, 2010				290,454,703
December 1, 2010 December 31, 2010				290,454,703
Total	5,427,207		5,427,207	

See Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K for information as of December 31, 2010, with respect to shares of our common stock that may be issued under our existing share-based compensation plans.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial and other data are qualified in their entirety by reference to, and should be read in conjunction with, our consolidated financial statements and the related notes thereto appearing elsewhere in this annual report and Management s Discussion and Analysis of Financial Condition and Results of Operations. Our selected statement of operations and statement of cash flows data set forth below for each of the five years ended December 31, 2010, 2009, 2008, 2007, and 2006, and the balance sheet data as of December 31, 2010, 2009, 2008, 2007, and 2006, are derived from our audited consolidated financial statements. Prior period financial results have been recast to be comparable to current period reporting.

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share amounts)				
Selected Statement of Operations Data					
Total revenue	$ 2,124,236	$ 1,833,796	$ 1,651,114	$ 1,652,209	$ 1,766,338
Operating expenses:					
Educational services and facilities	639,123	606,014	597,219	575,012	542,992
General and administrative	1,095,519	931,118	861,264	854,282	893,515
Depreciation and amortization	71,372	65,204	70,944	72,513	72,904
Goodwill and asset impairment(1)	71,829	2,500	6,843	5,610	91,298
Total operating expenses	1,877,843	1,604,836	1,536,270	1,507,417	1,600,709
Operating income	246,393	228,960	114,844	144,792	165,629
Operating margin percentage	*11.6%*	*12.5%*	*7.0%*	*8.8%*	*9.4%*
Total other income	484	1,441	19,620	22,910	20,723
Pretax income	246,877	230,401	134,464	167,702	186,352
Provision for income taxes	80,287	80,894	40,634	53,464	92,486
Income from continuing operations	166,590	149,507	93,830	114,238	93,866
Loss from discontinued operations, net of tax(2)	(8,817)	(68,288)	(33,688)	(54,685)	(47,297)
Net income	$ 157,773	$ 81,219	$ 60,142	$ 59,553	$ 46,569
Net income (loss) per share-basic:					
Income from continuing operations	$ 2.08	$ 1.74	$ 1.04	$ 1.22	$ 0.98
Loss from discontinued operations	(0.11)	(0.79)	(0.37)	(0.58)	(0.50)
Net income	$ 1.97	$ 0.95	$ 0.67	$ 0.64	$ 0.48
Net income (loss) per share-diluted:					
Income from continuing operations	$ 2.06	$ 1.73	$ 1.04	$ 1.21	$ 0.96
Loss from discontinued operations	(0.11)	(0.79)	(0.37)	(0.58)	(0.49)
Net income	$ 1.95	$ 0.94	$ 0.67	$ 0.63	$ 0.47

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	As of December 31,				
	2010	2009	2008	2007	2006
			(Dollars in thousands)		
Selected Balance Sheet Data					
Assets:					
Cash and cash equivalents and short-term investments	$ 449,153	$ 484,713	$ 493,991	$ 377,766	$ 432,978
Student receivables, net(3)	74,809	79,250	67,360	65,555	56,608
Total current assets	619,357	628,835	643,045	576,666	608,215
Total assets	1,560,856	1,563,842	1,418,560	1,378,292	1,421,911
Liabilities:					
Deferred tuition revenue	176,102	184,336	150,965	150,580	129,990
Total current liabilities	464,073	442,009	351,677	372,930	303,571
Total liabilities	626,319	641,797	470,048	480,569	426,033
Working capital	155,284	186,826	291,368	203,736	304,644
Treasury shares at cost(4)	(191)	(221,887)	(89,078)	(75,023)	(366,319)
Total stockholders equity	$ 934,384	$ 921,524	$ 947,652	$ 886,108	$ 982,401

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
			(Dollars in thousands)		
Selected Statement of Cash Flows Data					
Net cash provided by operating activities	$ 272,259	$ 288,251	$ 186,720	$ 222,075	$ 216,390
Net cash (used in) provided by investing activities	(109,660)	(49,301)	(150,787)	4,813	(56,453)
Net cash used in financing activities	(156,873)	(199,151)	(21,048)	(185,718)	(111,239)
Capital expenditures	(127,283)	(74,087)	(53,854)	(57,586)	(69,473)

(1) During 2010, we recorded $71.8 million in goodwill and asset impairment charges, including $67.8 million related to trade name impairment within Culinary Arts, $1.4 million related to goodwill impairment within Culinary Arts, $2.3 million related to an asset impairment charge within Corporate and Other and $0.3 million related to asset impairment charges within University. During 2009, we recorded a $2.5 million asset impairment charge within Corporate and Other related to one of our owned facilities, resulting from its carrying value exceeding its current fair value. During 2008, we recorded approximately $6.8 million in asset impairment charges, including $4.8 million related to the reduction in asset carrying values recorded within Culinary Arts and $2.0 million related to the write-off of an intangible asset within Health Education. During 2007, we recorded asset impairment charges of $5.6 million related to campuses within Health Education. The asset impairment charges resulted from the campuses carrying value of long-lived assets exceeding their fair values. During 2006, we recorded goodwill and other intangible asset impairment charges of approximately $86.3 million within Health Education and recorded asset impairment charges of approximately $5.0 million within Health Education. See Note 8 Property and Equipment and Note 9 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements for further discussion of the impairments.

(2) See Note 5 Discontinued Operations of the notes to our consolidated financial statements for further discussion of discontinued operations.

(3) Student receivables, net includes both current and non-current balances.

(4) In the fourth quarters of 2010 and 2007, our Board of Directors adopted resolutions to retire approximately 15.1 million and 15.6 million shares, respectively, of our treasury stock. The retirement of our treasury shares effectively reduces the number of shares of common stock issued and also reduces the number of shares of our common stock held as treasury shares.

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The graph below shows a comparison of cumulative total returns for CEC, the Standard & Poor s 500 Index and an index of peer companies selected by CEC. The companies in the peer index are weighted according to their market capitalization as of the end of each period for which a return is indicated. Included in the peer index are the following companies whose primary business is postsecondary education, including: Apollo Group, Inc., Corinthian College, Inc., DeVry Inc., ITT Educational Service, Inc., and Strayer Education, Inc. The performance graph begins with CEC s $33.72 per share closing price on December 30, 2005.

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

The discussion below contains forward-looking statements, as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. We have tried to identify forward-looking statements by using words such as anticipate, believe, plan, expect, intend, project, will, potential and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those matters discussed in Item 1A Risk Factors in Part I of this Annual Report on Form 10-K that could cause our actual growth, results of operations, cash flows, performance, business prospects and opportunities to differ materially from those expressed in, or implied by, these statements. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances, or for any other reason.

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

Overview

CEC is an industry leader whose institutions are recognized globally. Those institutions include, among others, American InterContinental University (AIU); Brooks Institute; Colorado Technical University (CTU); Harrington College of Design; INSEEC Group (INSEEC) Schools; International University of Monaco (IUM); International Academy of Design & Technology (IADT); Istituto Marangoni; Le Cordon Bleu North America (LCB); and Sanford-Brown Institutes and Colleges. Through its schools, CEC is committed to providing high-quality education, enabling students to graduate and pursue rewarding career opportunities.

During 2010, we organized our businesses across four reporting segments which included University, Health Education, Culinary Arts and International. Each segment represents a group of postsecondary education providers that offer a variety of degree and non-degree academic programs. These segments were organized by key market segment to enhance brand focus and operational alignment within each segment to more effectively execute our strategic growth plan. In December 2010, we completed the teach out of our last remaining Transitional school, AIU Los Angeles, CA. As a result, all current and prior period results have been presented as a component of discontinued operations. As all schools within Transitional Schools have ceased operations, this reporting segment no longer exists.

Additionally, during 2010, we completed a detailed review of our shared service costs to determine which of these costs should be charged to the segments as well as how these shared service costs should be allocated. These services include legal, finance, human resources, marketing, certain academic functions and certain centralized activities related to student finance, including financial aid processing, student account posting and collections. These costs, recorded within Corporate and Other, were previously allocated to our segments based upon a percentage of revenue. Improved data and analytical capabilities have provided us insight into costs being incurred to support the segments versus costs being incurred to support the corporation as a whole. The new methodology allocates costs based on usage and consumption factors such as student population, employee headcount, advertising spend, number of financial aid recipients and revenue where appropriate. In the case of certain services which are shared evenly across the segments, we allocate equally. The new methodology is intended to provide improved transparency into the costs of the shared services. The effect of these changes impacts the costs reported within each segment and reduces the level of unallocated shared service costs. Results beginning in 2010 are presented under the new methodology and prior period results have been revised to be comparable to the current reporting.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K. The MD&A is intended to help investors understand the results of operations, financial condition and present business environment. The MD&A is organized as follows:

- Overview and 2011 Outlook
- Consolidated Results of Operations
- Segment Results of Operations
- Summary of Significant Accounting Policies and Estimates
- Liquidity, Financial Position and Capital Resources

Overview and 2011 Outlook

2010 was a year of accomplishments as well as challenges for CEC. We experienced improved financial performance, as total revenue increased 15.8% to $2,124.2 million for the year ended December 31, 2010 as compared to 2009 total revenue of $1,833.8 million. Operating income increased by 7.6% as compared to 2009, and student population grew 11% over the prior year driven by strong new student start growth in the first half of 2010. Each of our four operating segments experienced an increase in revenue, and our University, Health Education and International segments increased operating margins as compared to 2009, as these segments continued to leverage their existing cost structures. Due to two significant charges impacting our Culinary Arts segment, a $67.8 million asset impairment charge and a $40.8 million charge related to a legal settlement, operating margins declined as compared to 2009.

We continued to extend our geographic presence in our Health Education segment throughout the year. Contributing to the revenue growth within Health Education was the opening of six new campuses in 2010: SBC Hillside, IL; SBI Cranston, RI; SBC Tinley Park, IL; SBC Indianapolis, IN; SBC Skokie, IL and SBC Portland, OR. These campuses provide us with the opportunity to continue to expand our presence in key locations throughout the United States. We expect to continue to expand our Health Education footprint in 2011 by opening new U.S. campuses.

In addition to opening new campuses within the United States, we continued to expand our existing international operations with the acquisition of IUM in April 2010. Total consideration was approximately $10.6 million, which included $6.3 million of purchase price and $4.3 million related to the assumption of outstanding shareholder loans. IUM is a leading international business university located in Monaco, offering bachelor s, master s and doctoral programs in such areas as finance, international business and luxury goods and services. IUM has joined the INSEEC group and will position INSEEC for continued growth as a leader in postsecondary education in Europe.

Despite year-over-year improvement in several key metrics including student population, new student starts, revenue and operating income, we also experienced challenges, particularly in the second half of the year. These challenges included changes in the regulatory environment, heightened scrutiny from government representatives and news media and the softening of new student interest. To better position us for future growth, and to address the challenges CEC and others in private sector education face, we made a number of decisions that impacted our organizational structure and operating business model in a number of key areas. These decisions led to certain charges being recorded in the fourth quarter 2010.

We made changes to our infrastructure in an effort to reduce costs in the corporate organization, increase spans of control for senior leaders, consolidate like processes and functions under common leadership, position

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the organization to better serve its internal customers and continue the offering of shared services. As a result, we announced a reduction in our workforce of approximately 600 positions across our U.S. operations in January 2011. The elimination of these positions is expected to be completed in the first several months of 2011. This consolidation and streamlining of our operations and creation of a shared services organization resulted in a severance charge of approximately $7.7 million which was recorded in the fourth quarter of 2010. This charge is reflected within general and administrative expense within our consolidated statements of operations.

During 2010, Culinary Art s operating results included an impairment charge of $67.8 million related to the Le Cordon Bleu trade name. This non-cash charge was a result of its carrying value exceeding its estimated fair value. The fair value of the Le Cordon Bleu trade name declined as a result of the changes being made to the Culinary Arts operating model. Culinary Arts maintains its dedication to providing its students with the most beneficial outcomes and as such the Company has made the decision to change its operating model in early 2011. We believe this change will position us better to potentially appeal to an even broader market and responds to the current regulatory environment. The new operating model increases focus on our 12-month certificate program, which has a lower tuition level than our degree programs. In addition, we are decreasing the tuition cost of our certificate program within Culinary Arts beginning in the second quarter of 2011. Due to the reduced tuition level, we do not believe students will need as much financing support outside of their eligibility to participate in the Title IV programs; thus reducing the need for the Company to offer extended payment plan programs. As a result, the Company will no longer offer new students extended payment plan financing. We will continue to honor our commitment to students already receiving this type of funding, so that these students are able to complete their entire course of study. As a percent of revenue, we expect bad debt expense to decrease as compared to 2010 as a result of the business model changes within Culinary Arts.

In addition to the trade name impairment, Culinary Arts recorded a $40.8 million charge related to the settlement of an outstanding legal matter for California Culinary Academy, as well as a goodwill impairment non-cash charge of $1.4 million associated with our decision to teach out all programs at our LCB Pittsburgh, PA campus. The decision to teach out all programs at our LCB Pittsburgh, PA campus was another step towards making strategic investment decisions for our future Culinary Arts business model. The current year results also included a $28.5 million increase in bad debt expense within Culinary Arts primarily related to increasing the reserve rates attributable to our student extended payment plans. The Company has committed to $85.4 million of funding through its extended payment plans as of December 31, 2010. This commitment is generally based upon an estimate of the amount of additional financial aid needed by our students for a given academic year, less an anticipated cancellation rate for those plans that are later reduced or cancelled out entirely. This estimated amount could vary materially from what is ultimately provided to our students.

The Company expects to commit up to an additional $20 million of extended payment plan funding as current students complete their course of study and the program phases out. As of December 31, 2010, the amount of earned student receivables under student extended payment plans, net of allowance for doubtful accounts and net of deferred tuition revenue, was $9.0 million, of which the majority relates to Culinary Arts. The committed amount of extended payment plans includes those amounts which have not yet been earned and as such are not reflected within student receivables and also includes those amounts which have already been repaid by students.

During 2010, University continued its focus on quality-driven programs for its students and providing better access to financing literacy tools. These improvements allow students to better prepare themselves for their chosen careers and assess their financial outcomes. As disclosed previously, the Higher Learning Commission s (HLC) Board of Trustees had validated the HLC advisory team s recommendation related to its review of AIU. During the third quarter of 2010, we submitted two new programs to HLC for approval. HLC is reviewing these programs in accordance with its regular practices. We believe this is another positive step for the AIU institution. Additionally, a new tuition model was instituted in the first quarter of 2011 for the associate and bachelor s degree programs within AIU and CTU. The net effect of this change was to decrease the cost for bachelor s degrees and increase the cost for associate degrees. These changes, along with enhanced student advisor training, enable our institutions to remain competitive in the postsecondary education industry.

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We believe the creation of a shared services organization, combined with the change in the business model within our Culinary Arts segment and changes within University, will allow CEC to remain competitive in our industry and provide a further differentiation in the constantly changing industry environment. Also, we will continue to enhance the services we offer to students through our innovative technology and continued focus on strong student outcomes by assessing student readiness to engage in college-level work at the onset of the students program. As we examine our Company s organizational structure and make changes to our business and operating models, we will be careful to not sacrifice the high-quality educational experience we offer our students by continuing to emphasize quality and integrity.

We expect 2011 to be a challenging year, as we continue to address the impact of a weak economic environment and the decline in new student starts and average student population. Our changes in operating model will align us for long-term success, yet we anticipate 2011 to be a year of transition, especially for Culinary Arts. During 2011, CEC will continue to remain focused on enhancing the quality of education and student services in order to prepare students for success in their chosen careers. We believe investment in key areas such as ongoing student engagement in the process of life-long learning, improved student experiences related to career services support and heightened social responsibility within our Health Education segment as well as our other institutions, will position us to continue to change lives through education. Additionally, CEC will continue to build upon the compliance culture that we have established over time and ensure our students have clear information about our programs, including their financial obligations, the demands of our programs and the range of potential outcomes.

Industry Environment

We operate in a highly regulated environment subject to changes in government regulations as well as changes in academic accreditation agencies and state education regulatory authorities. We have instituted systems, processes and programs in all of our schools to ensure substantial compliance with all regulations. Recent and pending regulations released and to be released by the U.S. Department of Education (ED) may impact several key areas related to Title IV Program funding eligibility in the for-profit postsecondary education sector.

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to state authorization, gainful employment, compensation rules for persons engaged in certain aspects of admissions and financial aid, determination of attendance and definition of credit hours. With one exception, these regulations will become effective July 1, 2011. ED previously announced that it was delaying until early 2011 publication of final regulations on certain further proposed gainful employment regulations, which are expected to become effective on July 1, 2012 or thereafter.

The October 29, 2010 regulations contain changes from the proposed regulations issued by ED in June 2010. The Company continues to analyze the final regulations, to identify and assess potential impacts to our business and to consider and evaluate various strategies to address those potential impacts. These new and pending regulations could have significant impacts on our business. Among the most significant regulatory changes that we have identified to date for our business are:

- the elimination of certain safe harbors that had allowed, under limited and prescribed circumstances, payment of certain types of compensation to employees (including higher level employees) and third parties involved in student enrollment, certain recruiting, admissions or financial aid activities;

- imposition of extensive record-keeping and disclosure requirements respecting the employment of graduates, as a precursor to proposed gainful employment regulations, described above, that would base the eligibility of specific programs to enroll students receiving Title IV Program funds on certain yet-to-be defined metrics including but not limited to cost of education, future earnings, student loan defaults and debt incurred in the securing of such education;

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defining a credit hour for purposes of determining program eligibility for Title IV student financial aid;

establishing more stringent state approval criteria that may require or encourage states to modify existing state approval and licensing processes;

requiring an institution that offers distance learning programs to secure the approval of each state where it enrolls students to the extent any such state requires such approval and provide evidence of such approval to ED upon request; and

strengthening the definition of proscribed misrepresentation to include, among other things, erroneous statements, including erroneous statements made by certain third-party vendors under contract to an institution, which may increase institutional liability and subject institutions to sanctions for statements containing inadvertent errors, and expose institutions to costly third-party litigation.

As of the date of this filing, we are still assessing the most recently released regulations and have begun to implement changes to address these regulations. We cannot predict the outcome of the portion of the gainful employment rules that are expected to be issued in 2011, or predict with certainty the impact of the new regulations on our operations. These rules could affect the manner in which we conduct our business and compliance with these rules could have a material adverse effect on our business, financial condition, results of operations and cash flows. We anticipate that our Culinary Arts and Art & Design institutions will be most impacted by the gainful employment rules that are expected to be issued in 2011. We continue to review our business models and expect to be in a position to respond with action plans to address changes that may be required as a result of the final gainful employment rules.

CONSOLIDATED RESULTS OF OPERATIONS

The summary of selected financial data table below should be referenced in connection with a review of the following discussion of our results of operations for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,					
	2010	**% of Total Revenue**	**2009**	**% of Total Revenue**	**2008**	**% of Total Revenue**
			(Dollars in thousands)			
TOTAL REVENUE	$ 2,124,236		$ 1,833,796		$ 1,651,114	
OPERATING EXPENSES						
Educational services and facilities	639,123	30.1%	606,014	33.0%	597,219	36.2%
General and administrative:						
Advertising	302,814	14.3%	291,743	15.9%	248,708	15.1%
Admissions	213,705	10.1%	192,202	10.5%	195,905	11.9%
Administrative	472,070	22.2%	390,149	21.3%	373,673	22.6%
Bad debt	106,930	5.0%	57,024	3.1%	42,978	2.6%
Total general and administrative expense	1,095,519	51.6%	931,118	50.8%	861,264	52.2%
Depreciation and amortization	71,372	3.4%	65,204	3.6%	70,944	4.3%
Goodwill and asset impairment	71,829	3.4%	2,500	0.1%	6,843	0.4%
OPERATING INCOME	246,393	11.6%	228,960	12.5%	114,844	7.0%
PRETAX INCOME	246,877	11.6%	230,401	12.6%	134,464	8.1%
PROVISION FOR INCOME TAXES	80,287	3.8%	80,894	4.4%	40,634	2.5%
Effective tax rate	*32.5%*		*35.1%*		*30.2%*	

INCOME FROM CONTINUING OPERATIONS	166,590	7.8%	149,507	8.2%	93,830	5.7%
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(8,817)	-0.4%	(68,288)	-3.7%	(33,688)	-2.0%
NET INCOME	$ 157,773	7.4%	$ 81,219	4.4%	$ 60,142	3.6%

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Educational services and facilities expense includes costs directly attributable to the educational activity of our schools, including, among other things, (1) salaries and benefits of faculty, academic administrators, and student support personnel, (2) costs of educational supplies and facilities, including rents on school leases, certain costs of establishing and maintaining computer laboratories, costs of student housing, and owned and leased facility costs, (3) royalty fees paid to Le Cordon Bleu Limited through August 2009, and (4) certain student financing costs. Also included in educational services and facilities expense are costs of other goods and services provided by our schools, including, among other things, costs of textbooks, laptop computers, dormitory services, restaurant services, contract training and cafeteria services.

General and administrative expense includes salaries and benefits of personnel in corporate and school administration, marketing, admissions, financial aid, accounting, human resources, legal and compliance. Costs of promotion and development, advertising and production of marketing materials, occupancy of the corporate offices and bad debt expense are also included in this expense category.

Year Ended December 31, 2010 as Compared to the Year Ended December 31, 2009

Revenue

Total revenue increased $290.4 million, or 15.8% from the prior year driven by increased revenue in all operating segments: University, Health Education, Culinary Arts and International. The overall increase in revenue is due to an 11% increase in student population resulting from a 13% increase in new student starts as compared to the prior year. International s revenue was negatively impacted by $6.5 million in unfavorable effects of foreign currency exchange rates.

Educational Services and Facilities Expense

Educational services and facilities expense increased $33.1 million, or 5.5% as compared to 2009. The increase is mainly a result of an increase in academics expense, as Health Education, University and International invested in the expansion and support of academic functions in order to support growing student populations. As a percentage of revenue, educational services and facilities expense decreased approximately 2.9% as compared to the prior year due to higher utilization of our existing real estate and improved leverage of our existing cost structure.

General and Administrative Expense

General and administrative expense increased $164.4 million, or 17.7%, and increased 0.8% as a percentage of revenue as compared to the prior year. The 2010 expense includes $48.1 million of pretax charges related to settlements of legal matters within Culinary Arts and University, severance expense of $7.7 million associated with a reduction in force being carried out in 2011 as well as $49.9 million of higher bad debt expense as compared to the prior year. The 2009 expense included $23.1 million of pretax additional performance-based compensation expense related to incentive plan outperformance, which was partially offset by a $12.0 million payment received related to the termination of certain insurance policies. The increase of $21.5 million in admissions expense as compared to 2009 was driven by the expansion of the student population, particularly within our Health Education and University segments. Advertising expense increased $11.1 million as compared to 2009 due to increased spending within Health Education and University during the first half of 2010 as a result of strong levels of student interest.

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Bad debt expense incurred by each of our reportable segments during the years ended December 31, 2010, 2009 and 2008 was as follows:

	For the Year Ended December 31,					
	2010	As a % of Segment Revenue	2009	As a % of Segment Revenue	2008	As a % of Segment Revenue
			(Dollars in thousands)			
Bad debt expense by segment:						
University	$ 31,678	2.7%	$ 21,093	2.1%	$ 19,144	2.1%
Health Education	13,503	3.1%	8,018	2.2%	9,206	3.0%
Culinary Arts	56,155	14.5%	27,684	8.3%	14,297	4.4%
International	930	0.7%	617	0.5%	643	0.6%
Corporate and Other	4,664	N/A	(388)	N/A	(312)	N/A
Total bad debt expense	**$ 106,930**	**5.0%**	**$ 57,024**	**3.1%**	**$ 42,978**	**2.6%**

Bad debt expense increased $49.9 million as compared to 2009, primarily within Culinary Arts, as a result of increased reserve rates being applied to outstanding student receivables associated with our student extended payment plans. These rates are continually reviewed for appropriateness based upon repayment history. Included in the increase is $5.9 million of bad debt expense which was recorded within the fourth quarter 2010 resulting from the correction of an error in prior periods attributed to the calculation of the allowance for doubtful accounts associated with our extended payment plan programs.

Goodwill and Asset Impairment

During 2010, we recorded goodwill and asset impairment charges of $71.8 million, of which $69.2 million was recorded within Culinary Arts in the fourth quarter related to the $67.8 million impairment to the Le Cordon Bleu trade name and a $1.4 million goodwill impairment charge related to our decision to teach-out all programs at our LCB Pittsburgh, PA campus. In addition, during the fourth quarter 2010, we recorded an asset impairment charge of $2.3 million within Corporate and Other related to the impairment of an investment and uncollectability of a loan receivable. In the third quarter 2010, we recorded a $0.3 million asset impairment charge for one of our leased facilities within the University segment. During 2009, we recorded a $2.5 million asset impairment charge for one of our owned facilities, resulting from its carrying value exceeding its current fair value. This noncash charge is reflected within Corporate and Other. Goodwill and indefinite-lived intangible assets are reviewed for impairment on at least an annual basis by applying a fair-value-based test.

Operating Income

Operating income increased $17.4 million, or 7.6% as compared to 2009, as we experienced increased profitability within University, Health Education and International. The increase in revenue from the growth in student population more than offset the increases in operating expenses to sustain this continuing growth, as well as the charges related to asset impairments, legal matters and our allowance for doubtful accounts.

Provision for Income Taxes

Our consolidated effective income tax rate for continuing operations was 32.5% for the year ended December 31, 2010, as compared to 35.1% for the year ended December 31, 2009. The current year provision for income taxes includes a $6.2 million tax benefit associated with tax credits related to curriculum development, reductions to our unrecognized tax benefits due to expiration of statute of limitations and reversals of some state net operating loss valuation allowances as the Company was able to utilize state operating losses in the current year. These items reduced our effective tax rate by 3.0% for the twelve months ended December 31, 2010. This reduction in the effective tax rate was partially offset by higher state income taxes as a percentage of pretax income.

Loss from Discontinued Operations

Prior to December 2010, our Transitional Schools segment included those schools that were being taught out. In December 2010, we completed the teach out of our last remaining Transitional school, AIU Los Angeles, CA. The results of operations for this campus and schools that were previously taught out or sold are presented within discontinued operations. During the years ended December 31, 2010 and 2009, we recorded expense of $6.3 million and $75.6 million, respectively, related to future remaining lease obligation charges, net for lease terminations associated with discontinued operations. See Note 5 Discontinued Operations of our notes to our consolidated financial statements for further discussion of our accounting for discontinued operations.

Year Ended December 31, 2009 as Compared to the Year Ended December 31, 2008

Revenue

Total revenue for 2009 increased $182.7 million or 11.1% as compared to 2008 as student population increased due to strong student retention and new student start growth. The overall increase in revenue is primarily attributable to increases within University, Health Education and International. University s and Health Education s 2009 revenues increased as compared to 2008 due to strong growth in student populations and increased new student starts, as well as University s strong student retention. International s increase in 2009 revenue as compared to 2008 can be attributed to strong student population growth, which more than offset the unfavorable impact of foreign currency exchange rates.

Educational Services and Facilities Expense

Educational services and facilities expense for 2009 increased $8.8 million and decreased 3.2% as a percentage of revenue as compared to 2008. During 2009, we took steps to optimize our real estate footprint, and as a result, 2009 expense includes $15.8 million of charges primarily related to the fair value of remaining lease obligations for space that was vacated within Culinary Arts, Health Education, University and Corporate and Other. Expense for 2008 includes $14.4 million of pretax charges, including $6.0 million of pretax charges related to lease termination expense, $6.0 million for the fair value of remaining lease obligations for vacated space in our Culinary Arts, Health Education and University segments and $2.4 million for severance and stay bonuses associated with our efforts to reduce redundancies within our organization.

General and Administrative Expense

General and administrative expense for 2009 increased $69.9 million and decreased 1.4% as a percentage of revenue as compared to 2008, as increases in advertising, administrative and bad debt expenses were only partially offset by a decrease in admissions expense. The $43.0 million increase in advertising expense as compared to 2008 was driven by increased spending across all reporting segments, most notably within University, as we continued to capitalize upon market opportunities. The increase in administrative expense for 2009 as compared to 2008 was mainly due to a $23.1 million increase in performance-based compensation expense, driven by outperformance of the Company s annual business objectives and financial performance metrics related to its annual cash incentive plan being partially offset by a $12.0 million payment received related to the termination of certain insurance policies. The 2008 expense included $10.6 million of pretax charges; $6.3 million related to the settlement of certain legal matters, and $4.3 million for severance and stay bonuses associated with our decision to teach out certain campuses and our efforts to reduce redundancies within our organization.

Bad debt expense for 2009 increased approximately $14.0 million as compared to 2008, primarily within Culinary Arts, as student receivable balances grew as a result of our extended payment plans offered to certain students beginning in the second quarter 2008 as a replacement for the recourse loan program previously provided by Sallie Mae. This increase was partially offset by a decrease in Health Education bad debt expense resulting from increased student aid funding from government programs, as well as the overall improvement in student retention, as students who complete their educational programs have historically had better repayment experience.

Goodwill and Asset Impairment

During 2009, we recorded a $2.5 million asset impairment charge for one of our owned facilities, resulting from its carrying value exceeding its current fair value. This noncash charge is reflected within Corporate and Other. During 2008, we recorded approximately $6.8 million in asset impairment charges, including a noncash charge of $4.8 million related to closure of facilities within Culinary Arts and a $2.0 million impairment of a trade name in Health Education.

Operating Income

Operating income for 2009 increased $114.1 million, or 99.4% as compared to 2008, as we experienced increased profitability across the majority of our reporting segments resulting from our ability to leverage our existing cost structure to support our revenue growth. Operating income for both 2009 and 2008 includes a number of significant items. 2009 operating income includes an additional $23.1 million associated with performance-based incentive programs resulting from plan outperformance of 2009 operating targets; $15.8 million of pretax charges related to the fair value of remaining lease obligations for space that was vacated within Culinary Arts, Health Education, University and Corporate and Other; and a $2.5 million asset impairment charge partially offset by the receipt of $12.0 million related to the termination of certain insurance policies. 2008 operating income includes $6.8 million of asset impairment charges, $6.7 million in severance and stay bonus expense, $6.3 million of net expense associated with legal settlements, $6.0 million in lease exit costs and $6.0 million for the fair value of remaining lease obligations for vacated space.

Provision for Income Taxes

Our consolidated effective income tax rate for continuing operations was 35.1% for the year ended December 31, 2009 and 30.2% for the year ended December 31, 2008. The increase in our effective tax rate from the prior year was primarily due to the recording of a valuation allowance on the net operating losses of a foreign subsidiary, less non-profit income as a percentage of pretax income and a permanent tax benefit on the sale of a foreign entity in the prior year. In addition, the current year results include lower levels of tax-exempt interest as a percentage of pretax income. Finally, the prior year s tax rate includes a higher level of reduction of tax reserves due to the expiration of the statute of limitations on international tax matters and the closing of a state income tax audit.

Loss from Discontinued Operations

The results of operations for schools that have been previously taught out or sold are presented within discontinued operations. In connection with the closures of these schools, we recorded future minimum lease obligation charges of $75.6 million and $13.0 million, net of reversals for lease terminations for the years ended December 31, 2009 and 2008, respectively. See Note 5, Discontinued Operations of our notes to our consolidated financial statements for further discussion of our accounting for discontinued operations.

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SEGMENT RESULTS OF OPERATIONS

The following tables set forth unaudited historical segment results for the periods presented. Results for the prior years have been reclassified to be comparable to the current year presentation.

	For the Year Ended December 31, REVENUE				
	2010	2009	2008	2010 vs 2009 % Change	2009 vs 2008 % Change
		(Dollars in thousands)			
University	$ 1,159,291	$ 1,018,194	$ 907,066	13.9%	12.3%
CTU	*465,315*	*368,621*	*294,409*	*26.2%*	*25.2%*
AIU	*448,581*	*409,043*	*374,699*	*9.7%*	*9.2%*
Art & Design	*245,395*	*240,530*	*237,958*	*2.0%*	*1.1%*
Health Education	441,608	362,692	308,169	21.8%	17.7%
Culinary Arts	387,884	332,236	328,313	16.7%	1.2%
International	136,076	121,188	107,558	12.3%	12.7%
Corporate and Other	(623)	(514)	8		
Total	**$ 2,124,236**	**$ 1,833,796**	**$ 1,651,114**	**15.8%**	**11.1%**

	For the Year Ended December 31, OPERATING INCOME (LOSS)			OPERATING MARGIN (LOSS)		
	2010	2009	2008	2010	2009	2008
		(Dollars in thousands)				
University	$ 282,013	$ 195,081	$ 127,248	24.3%	19.2%	14.0%
CTU	*133,881*	*79,889*	*50,275*	*28.8%*	*21.7%*	*17.1%*
AIU	*118,959*	*90,127*	*54,305*	*26.5%*	*22.0%*	*14.5%*
Art & Design	*29,173*	*25,065*	*22,668*	*11.9%*	*10.4%*	*9.5%*
Health Education	52,028	42,072	14,168	11.8%	11.6%	4.6%
Culinary Arts	(66,813)	14,873	(6,324)	-17.2%		