CAREER EDUCATION CORP
Form 10-K
February 20, 2009
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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, 2008**

**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.)** |
| **2895 Greenspoint Parkway, Suite 600 Hoffman Estates, Illinois** | **60169** |
| **(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 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 $14.61 per share closing sale price of the Registrant s common stock on June 30, 2008 (the last business day of the Registrant s most recently completed second quarter), was approximately $1,240,605,199. For purposes of this calculation, the Registrant s directors and executive officers and holders of 10% or more of the Registrant s outstanding shares of voting common stock have been assumed to be affiliates, with such affiliates holding an aggregate of 4,670,052 shares of the Registrant s voting common stock on June 30, 2008. As of January 31, 2009, the number of outstanding shares of Registrant s common stock was 89,750,641.

Portions of the Registrant s Notice of Annual Meeting and Proxy Statement for the Registrant s 2009 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, will, 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.

**BUSINESS OVERVIEW**

We are a global education company committed to quality outcomes and career opportunities for a diverse student population. We are a leading on-ground provider of private, for-profit, postsecondary education in the U.S. and have a substantial presence in online education. Our schools and universities prepare students for professionally and personally rewarding careers through the operation of more than 75 on-ground campuses located throughout the United States and in France, Italy and the United Kingdom and three fully-online academic platforms. Our six reportable segments are:

***University*** includes our American InterContinental University ( AIU ), Colorado Technical University ( CTU ) and Briarcliffe College schools that collectively offer regionally accredited academic programs in the career-oriented disciplines of business studies, visual communications and design technologies, health education, information technology, criminal justice, and education in an online, classroom, or laboratory setting.

***Culinary Arts*** includes our Le Cordon Bleu ( LCB ) and Kitchen Academy schools that collectively offer culinary arts programs in the career-oriented disciplines of culinary arts, baking and pastry arts, and hotel and restaurant management primarily in a classroom or kitchen setting.

***Health Education*** primarily includes our Sanford-Brown schools that collectively offer academic programs in the career-oriented disciplines of health education, complemented by certain programs in business studies, visual communications and design technologies, and information technology in a classroom or laboratory setting.

***Art & Design*** includes our Brooks Institute, Brown College, Collins College, Harrington College of Design and International Academy of Design & Technology ( IADT ) schools. Collectively, these schools offer academic programs primarily in the career-oriented disciplines of fashion design, game design, graphic design, interior design, film and video production, photography, and visual communications in a classroom, laboratory or online setting.

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

***Transitional Schools*** includes those schools that are currently being taught out. As of December 31, 2008, the following campuses were included within Transitional Schools: McIntosh College; Lehigh Valley College; seven of the campuses that were part of the Gibbs Division, including Gibbs Colleges in Cranston, RI; Boston, MA; Livingston, NJ; Norwalk and Farmington, CT; and Katharine Gibbs Schools in New York, NY and Norristown, PA; and AIU Los Angeles, CA.

See Note 17 Segment Reporting of the notes to our consolidated financial statements for further discussion.

**INDUSTRY BACKGROUND AND COMPETITION**

The postsecondary education industry includes approximately 6,900 institutions that participate in federally-sponsored financial aid programs authorized by Title IV of the Higher Education Act of 1965, as amended and as reauthorized by the Higher Education Act signed into law on August 14, 2008 ( HEA ), which we refer to as Title IV Programs. According to the National Center for Education Statistics ( NCES ), there were approximately 6,540 Title IV eligible postsecondary education institutions in the United States as of the fall of 2006, including approximately 2,680 private, for-profit schools; approximately 2,010 public, non-profit schools; and approximately 1,850 private, non-profit schools. According to the U.S. Department of Education, in the fall of 2006, approximately 18.2 million students were attending degree-granting institutions that participate in the various financial aid programs under Title IV of the HEA.

The postsecondary education industry is highly fragmented, 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.

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

**BUSINESS AND OPERATING STRATEGY**

To compete successfully in today s demanding workplace, we believe individuals significantly benefit from a solid educational foundation that provides them with the knowledge and skills they will use on the job. Our business and operating strategy is focused on educating students for jobs in specific fields, and enabling our schools to meet the needs and demands of our students. We have aligned our strategic plan on five broad choices:

***Grow Our Core Educational Institutions***

Our schools operating under the AIU, CTU, IADT, LCB and Sanford-Brown brand names generate over 70% of our domestic revenue and operating income. We continue to focus our time, energy, and resources on these five brands. We will adequately resource the remaining brands, but intend to be more judicious in allocating our internal resources and in prioritizing certain functional activities.

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As of December 31, 2008, approximately 37% of our students were obtaining their education online. For students whose lifestyles demand flexibility in learning, our schools fully-online platforms, AIU Online, CTU Online and IADT Online, deliver a quality educational experience through 100% Internet-based courses. Our schools fully-online platforms provide us with an opportunity to expand our business both domestically and internationally. We will continue to invest resources in this rapidly growing area of fully-online education to promote organic growth. We will also continue to explore the option of expanding our online presence through the offering of fully-online platforms at our on-ground schools and the introduction of new program offerings to our schools existing fully-online platforms.

Along with our fully-online platforms, we continue to develop our blended learning model, which capitalizes on our universities online platforms 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 utilizing our universities online platforms virtual campus. We believe that our blended learning model provides our current and prospective students with the program flexibility that they desire.

In addition, we seek to foster organic growth by expanding program offerings at our schools. Many of our schools are able to leverage educational programs that have been successful at one of our campuses by selectively establishing similar programs at other campuses. In addition, we are aggressively developing new curricula to be offered across our campuses.

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

***Enter New Markets***

A key component of our schools growth strategy is the establishment of start-up branch campuses of our existing schools. We define start-up campuses as branch campuses that have been instructing students for less than 12 months, including those campuses that have not yet opened for instruction. Start-up branch campuses enable our schools to capitalize on new markets or geographic locations that exhibit strong enrollment potential or exhibit the potential to establish a successful operation based on one of our core curricula.

As of December 31, 2008, four of our campuses were in the start-up stage. Our LCB Boston, MA campus began instructing students in the second quarter 2008, and our Kitchen Academy Seattle, WA campus began instructing students in the third quarter 2008. Our Sanford-Brown Institute in San Antonio, TX and LCB St. Louis, MO campuses are expected to begin instructing students in the second quarter 2009.

We will continue to seek to grow our education institutions through geographic and programmatic extensions. We currently operate in 22 U.S. states and three countries outside of the U.S. We believe there are growth opportunities both within the U.S. and internationally.

***Improve Academic and Operational Effectiveness***

As we look for opportunities to add and expand our presence, we also strive for continuous improvement in our existing business. This includes not only looking for opportunities to improve service through standardizing and centralizing processes and leveraging technology, but also in expanding our development of new curricula and programs. We are focused on seeking opportunities to leverage best practices across our existing business.

***Build our Reputation and External Relationships***

We are committed to maintaining an industry-leading compliance program. We have developed rules, policies and standards to guide the conduct of our employees. Our compliance objectives include the

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development of processes and controls to help ensure compliance with applicable rules, standards and laws. We believe that a key to meeting these objectives is our continued emphasis on individual and organizational responsibility for compliance. Additionally, we have utilized technology to improve the design and operation of our network of compliance controls and to develop tools that enable our corporate and school personnel to proactively monitor their overall compliance environment for indicators of potential compliance issues.

***Grow and Develop Our People***

We are committed towards creating and maintaining a high performance culture of engaged employees who embrace our Mission and Values while operating with a clear understanding of their role and accountabilities towards contributing to the success of the organization. We promote a culture that provides all employees the opportunity to grow and develop their skills and advance their contributions and careers. We engage in meaningful talent management and succession planning to promote the optimum use of our human capital and strive to further refine and develop the skills and capabilities of our leaders. We ensure that effective programs exist to recognize and reward our employees and provide meaningful health and welfare benefits to contribute towards their general well-being.

**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 on-ground campuses has an admissions office whose staff is responsible for identifying 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, 2008, our domestic schools employed approximately 1,823 admissions representatives serving both current and potential students.

We seek to increase enrollment at each of our schools through concentrated local, regional, national and Internet-based marketing programs designed to maximize each campus market penetration. We continually strive to design marketing programs that describe our campuses quality educational programs offered and potential job opportunities that may be available to our graduates. The following table represents our estimated percentage of domestic student starts generated by leads obtained from various marketing sources during the years ended December 31, 2008 and 2007:

| | Year Ended December 31, | |
|---|---|---|
| | **2008** | **2007** |
| Internet | 71% | 70% |
| Referrals | 14% | 14% |
| Television and print | 9% | 11% |
| High school presentations | 2% | 3% |
| Direct mailings | 1% | 1% |
| Other | 3% | 1% |

The admissions and entrance standards 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.

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**Student Academics and Retention**

Our schools and universities offer a wide array of career-based programs at varying degree levels that engage a student s passion from the first term through graduation in a classroom, laboratory, kitchen or online setting. We offer academic programs in the core career-oriented disciplines of business studies, visual communications and design technologies, health education, culinary arts and information technology. Instruction is provided by our educators on a one-on-one basis, in small groups, or in large groups. Methods of instructional delivery include lectures and demonstrations. Our students skills are further developed through completing assignments, projects and examinations, including those conducted in a laboratory or kitchen setting that give students practical hands-on experience. Online instructional activities may include web-based chats, threaded discussions and video presentations.

We continually emphasize 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 revenue and 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, 2008, 2007 and 2006, were approximately 66.7%, 67.7%, and 66.2%, respectively. These rates were determined in accordance with the standards set forth by the Accrediting Council for Independent Colleges and Schools ( ACICS ) to provide a common formula for all of our schools regardless of their accreditor.

**Student Graduation and Employment**

We place a high priority on assisting our students in graduating from their programs of study and securing employment in their careers of choice. We believe that the gainful 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. Our schools share with each student the responsibility for the student s long-term success. Our emphasis on providing personal support and assistance to our students is a hallmark of our educational model.

Each of our campuses has a career services department whose primary responsibility is to assist our students in obtaining employment in their chosen fields of study after graduation. Career services staff members provide our students with a variety of career development instruction, which addresses, among other things, the preparation of resumes and cover letters, interviewing skills, networking and other essential job-search tools, as well as ongoing career service resources, which are generally available to both current students and alumni. 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 campuses overall success strategy, as these opportunities may lead to permanent positions for our students after graduation.

As of December 31, 2008, we employed approximately 261 individuals in the career services departments of our campuses. In addition to our career services personnel, we have many externship coordinators who help students obtain externships that prepare them to effectively compete in the employment market.

**Curricula and Faculty Development**

We believe that the quality and relevance of our schools curricula is a key component of the success of our overall business strategy. We believe prospective students choose, and employers recruit from, career-oriented educational institutions based primarily on the type and quality of the curriculum offered and the education provided. The curriculum development efforts of our schools are a direct product of relationships and partnerships with the business and professional communities of the employers that our schools serve. Each of our individual campuses has one or more program advisory boards comprised of local and regional community members who are engaged in businesses directly related to that campus educational offerings.

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Faculty development is equally as important. Instructors at our schools participate in both online and face-to-face workshops, seminars or inservices. Our intranet has an intensive faculty service area where instructors may interact with each other, access pedagogical training modules, hiring guidelines and the faculty handbook. We believe that by developing our faculty, we are enriching not only faculty skills, but also the educational experience for our students.

**School Administration**

Each of our regionally-accredited schools is overseen by a governing board that includes independent representation to review academic integrity of the institution. These governing boards have broad oversight over the schools programs and operations, play an active role in policy-making, and review financial resources of their schools to ensure the institution is able to provide a sound educational program. In furtherance of that mission, each governing board develops policies appropriate to the needs of the school and works closely with the respective school s administration, or, in the case of our AIU, CTU, INSEEC and Istituto Marangoni multi-campus school systems, with those responsible for the centralized administration of the school, to, among other things, establish a climate for articulating and promoting the educational vision of the school.

Certain of our other schools have also established governing boards that assist with the development of the academic and operating strategy for the schools. These governing boards generally are comprised of several members of the local community who do not have an ownership interest in the school, and one or more campus or corporate employees.

**Student Population**

Our student population for continuing operations as of January 31, 2009 and 2008 was approximately 98,000 students and 97,100 students, respectively. Included in total student population for continuing operations as of January 31, 2009 and 2008, were approximately 36,300 students and 31,900 students, respectively, enrolled in our University and Art & Design fully-online academic programs. Total student population for continuing operations by operating segment as of January 31, 2009 and 2008, and related student population demographic information as of December 31, 2008 and 2007, were as follows:

**Student Population by Segment:**

| | **As of January 31,** | |
|---|---|---|
| | **2009** | **2008** |
| University | | |
| AIU Online | 16,800 | 15,500 |
| CTU Online | 18,600 | 16,000 |
| On-ground | 10,300 | 10,000 |
| Culinary Arts | 9,600 | 10,900 |
| Health Education | 17,600 | 14,700 |
| Art & Design | | |
| On-ground | 12,600 | 13,800 |
| IADT Online | 900 | 400 |
| International | 9,700 | 8,600 |
| Subtotal | 96,100 | 89,900 |
| Transitional Schools | 1,900 | 7,200 |
| Total student population | 98,000 | 97,100 |

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**Student Population by Age Group:**

| Age Group | As a Percentage of Total Student Population as of December 31, 2008 | 2007 |
|---|---|---|
| Under 21 | 19% | 20% |
| 21 to 30 | 45% | 46% |
| Over 30 | 36% | 34% |

**Student Population by Core Curricula:**

| | As a Percentage of Total Student Population as of December 31, 2008 | 2007 |
|---|---|---|
| Business Studies | 49% | 46% |
| Visual Communications and Design Technologies | 16% | 19% |
| Health Education | 18% | 16% |
| Culinary Arts | 10% | 12% |
| Information Technology | 7% | 7% |

**Student Population by Degree Granting Program:**

| | As a Percentage of Total Student Population as of December 31, 2008 | 2007 |
|---|---|---|
| Doctoral, Master s, Bachelor s Degree | 39% | 41% |
| Associate Degree | 44% | 44% |
| Certificate | 17% | 15% |

**Student Starts by Segment:**

Total student starts for continuing operations during the years ended December 31, 2008 and 2007, were approximately 102,400 students and 102,200 students, respectively. Total student starts for continuing operations by operating segment for the years ended December 31, 2008 and 2007, were as follows:

| | For the Year Ended December 31, 2008 | 2007 |
|---|---|---|
| University | | |
| AIU Online | 23,400 | 22,500 |
| CTU Online | 24,100 | 21,800 |
| On-ground | 8,000 | 7,900 |
| Culinary Arts | 10,000 | 11,700 |
| Health Education | 19,000 | 16,200 |
| Art & Design | | |
| On-ground | 7,800 | 8,900 |
| IADT Online | 1,200 | 400 |
| International | 7,500 | 6,500 |

| | | |
|---|---|---|
| Subtotal | 101,000 | 95,900 |
| Transitional Schools | 1,400 | 6,300 |
| Total student starts | 102,400 | 102,200 |

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Certain other key information regarding each of our operating divisions, schools and campuses is summarized in the following table:

**SCHOOL AND CAMPUS INFORMATION TABLE**

| School and Campus Locations | Website |
|---|---|
| ***ART & DESIGN STRATEGIC BUSINESS UNIT ( SBU ):*** | |
| **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-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* | online.academy.edu |
| **Brooks Institute**, *Santa Barbara and Ventura, CA*(1) | www.brooks.edu |
| **Brown College**, *Mendota Heights and Brooklyn Center, MN*(1) | www.browncollege.edu |
| **Collins College**, *Phoenix, AZ* (2 locations)(1) | www.collinscollege.edu |
| **Harrington College of Design**, *Chicago, IL* | www.interiordesign.edu |
| ***CULINARY ARTS SBU:*** | |
| **California Culinary Academy**, *San Francisco, CA* | www.baychef.com |
| **California School of Culinary Arts**, *Pasadena and Hollywood, CA* | www.csca.edu |
| **The Cooking & Hospitality Institute of Chicago**, *Chicago, IL* | www.chic.edu |
| **Kitchen Academy**, *Sacramento, CA* | www.kitchenacademy.com |
| **Kitchen Academy**, *Seattle, WA* | www.kitchenacademy.com |
| **Le Cordon Bleu College (or Institute) of Culinary Arts ( LCB )** | |
| LCB-Atlanta, *Tucker, GA* | www.atlantaculinary.com |
| LCB-Boston, *Cambridge, MA* | www.bostonculinaryarts.com |
| LCB-Dallas, *Dallas, TX* | www.dallasculinary.com |
| LCB-Las Vegas, *Las Vegas, NV* | www.vegasculinary.com |
| LCB-Miami, *Miramar, FL* | www.miamiculinary.com |
| LCB-Minneapolis/St. Paul, *Mendota Heights, MN* | www.twincitiesculinary.com |
| **Orlando Culinary Academy**, *Orlando, FL* | www.orlandoculinary.com |
| **Pennsylvania Culinary Institute**, *Pittsburgh, PA* | www.pci.edu |
| **Scottsdale Culinary Institute**, | www.chefs.edu |

| | |
|---|---|
| *Scottsdale, AZ* | |
| **Texas Culinary Academy**, *Austin, TX* | www.tca.edu |
| **Western Culinary Institute**, *Portland, OR* | www.wci.edu |

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| School and Campus Locations | Website |
|---|---|
| ***HEALTH EDUCATION SBU:*** | |
| **Missouri College, Brentwood, MO** | www.missouricollege.com |
| **Sanford-Brown College (  SBC  )** | www.sanford-brown.edu |
| SBC-Cleveland, *Middleburg Heights, OH* | |
| SBC-Collinsville, *Collinsville, IL* | |
| SBC-Fenton, *Fenton, MO* | |
| SBC-Hazelwood, *Hazelwood, MO* | |
| SBC-St. Peters, *St. Peters, MO* | |
| SBC-Milwaukee, *West Allis, WI* | |
| SBC-Vienna, *Vienna, VA* | |
| **Sanford-Brown Institute (  SBI  )** | www.sanford-brown.edu |
| SBI-Atlanta, *Atlanta, GA* | |
| SBI-Dallas, *Dallas, TX* | |
| SBI-Ft. Lauderdale, *Ft. Lauderdale, FL* | |
| SBI-Garden City, *Garden City, NY* | |
| SBI-North Loop, *Houston, TX* | |
| SBC-Houston, *Houston, TX* | |
| SBI-Iselin, *Iselin, NJ* | |
| SBI-Jacksonville, *Jacksonville, FL* | |
| SBI-Landover, *Landover, MD* | |
| SBI-Monroeville, *Monroeville, PA* | |
| SBI-New York, *New York, NY* | |
| SBI-Pittsburgh, *Pittsburgh, PA* | |
| SBI-Tampa, *Tampa, FL* | |
| SBI-Philadelphia, *Trevose, PA* | |
| SBI-White Plains, *White Plains, NY* | |
| **SBI Campus-an Affiliate of Sanford-Brown**, ***Melville, NY*** | |
| ***INTERNATIONAL SBU:*** | |
| **The International Group** | www.inseec-france.com |
| CEFIRE, *Paris, France* | |
| ECE Bordeaux, *Bordeaux, France* | |
| ECE Lyon, *Lyon, France* | |
| INSEEC Bordeaux, *Bordeaux, France* | |
| INSEEC Paris, *Paris, France* | |
| MBA Institute, *Paris, France* | |
| Sup de Pub, *Paris, France* | |
| Sup Sante, *Lyon, France* | |
| Sup Sante, *Paris, France* | |
| Istituto Marangoni, *Milan, Italy; London, England; Paris, France* | www.istitutomarangoni.com |
| ***UNIVERSITY SBU:*** | |
| **American InterContinental University (  AIU  )** | www.aiuniv.edu |
| AIU-Buckhead, *Atlanta, GA* | |
| AIU-Dunwoody, *Atlanta, GA* | |
| AIU-Houston, *Houston, TX* | |

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| School and Campus Locations | Website |
|---|---|
| AIU-London, *London, England* | |
| AIU-South Florida, *Weston, FL* | |
| AIU Online | www.aiuonline.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 North Kansas City, *North Kansas City, MO* | |
| CTU Online | |
| CTU Sioux Falls, *Sioux Falls, SD* | |
| **Briarcliffe College** | www.bcl.org |
| Briarcliffe College, *Bethpage and Queens, NY*(1) | |
| Briarcliffe College, *Patchogue, NY* | |

| | Year of Expected Closure |
|---|---|
| ***TRANSITIONAL SCHOOLS:*** | |
| **Gibbs College:** | 2009 |
| Gibbs College, *Cranston, RI* | |
| Gibbs College, *Livingston, NJ* | |
| Gibbs College, *Norwalk and Farmington, CT* | |
| Gibbs College of Boston, Inc. a private two-year college, *Boston, MA* | |
| Katharine Gibbs School, *New York, NY* | |
| Katharine Gibbs School, *Norristown, PA* | |
| **Lehigh Valley College**, *Center Valley, PA* | 2009 |
| **McIntosh College**, *Dover, NH* | 2009 |
| **AIU-Los Angeles,** *Los Angeles, CA* | 2010 |

(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.

**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 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 one or more accrediting agencies recognized by the ED.

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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** | | |
| Atlanta/Buckhead, GA *(Atlanta/Dunwoody, GA; Weston, FL; Los Angeles, CA; Houston, TX; London, England; Online)* | SACS(3) | 2012 |
| **Briarcliffe College** | | |
| Bethpage, NY (*Patchogue, NY* ) | MSA | 2011 |
| **Brooks Institute** | | |
| Santa Barbara, CA | ACICS | 2010 |
| **Brown College** | | |
| Mendota Heights, MN | ACCSCT | 2011 |
| **California Culinary Academy** | | |
| San Francisco, CA | ACCSCT | 2010 |
| **California School of Culinary Arts** | | |
| Pasadena, CA (*Hollywood, CA* ) | ACICS | 2012 |
| **Collins College** | | |
| Phoenix, AZ | ACCSCT | 2010 |
| **Colorado Technical University** | | |
| Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online* ) | NCA | 2012 |
| **The Cooking & Hospitality Institute of Chicago** | | |
| Chicago, IL | NCA | 2018 |
| **Gibbs College** | | |
| Cranston, RI | ACICS | 2009 |
| Livingston, NJ | ACICS | 2013 |
| Norwalk, CT *(Farmington, CT)* | ACICS | 2011 |
| **Gibbs College of Boston, Inc, a private two-year college** | | |
| Boston, MA | ACICS | 2014 |
| **Harrington College of Design** | | |
| Chicago, IL | ACICS(3) | 2014 |
| **International Academy of Design & Technology** | | |
| Chicago, IL (*Troy, MI; Schaumburg, IL* ) | ACICS | 2012 |
| Nashville, TN | ACICS | 2013 |
| Tampa, FL (*Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Orlando Culinary Academy, Orlando, FL)* | ACICS | 2010 |
| **Katharine Gibbs School** | | |
| New York, NY *(Norristown, PA)* | ACICS | 2012 |
| **Lehigh Valley College** | | |
| Center Valley, PA | ACICS | 2009 |
| **McIntosh College** | | |
| Dover, NH | NEASC | 2009 |

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| School, Main Campus Location (Branch campuses are in parentheses) | Accreditor (1) | Year of Accreditation Expiration (2) |
|---|---|---|
| **Missouri College** | | |
| Brentwood, MO | ACCSCT | 2011 |
| **Pennsylvania Culinary Institute** | | |
| Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc., a private two year college (Boston Campus); Le Cordon Bleu College of Culinary Arts Miami, Miramar, FL)* | ACCSCT | 2010(4) |
| **Sanford-Brown College** | | |
| Fenton, MO *(St. Peters, MO)* | ACICS | 2011 |
| Vienna, VA | ACICS | 2010 |
| **Sanford-Brown Institute** | | |
| Atlanta, GA (*Houston/North Loop, TX; Landover, MD; Ft. Lauderdale, FL; New York, NY; Trevose, PA; Sanford-Brown College, Houston, TX and Middleburg Heights, OH)* | ACICS | 2014 |
| Dallas, TX (*Garden City, NY* ) | ACICS | 2008(5) |
| Jacksonville, FL (*Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)* | ACICS | 2011 |
| Pittsburgh, PA *(Monroeville, PA)* | ACCSCT | 2009 |
| White Plains, NY | ACICS | 2013 |
| **SBI Campus an Affiliate of Sanford-Brown** | | |
| Melville, NY | ACICS | 2009 |
| **Scottsdale Culinary Institute** | | |
| Scottsdale, AZ (*Le Cordon Bleu College of Culinary Arts Las Vegas, Las Vegas, NV* ) | ACCSCT | 2010 |
| **Texas Culinary Academy** | | |
| Austin, TX *(Le Cordon Bleu Institute of Culinary Arts Dallas, Dallas, TX; Kitchen Academy, Sacramento, CA and Seattle, WA; Sanford-Brown College, Collinsville, IL and Hazelwood, MO)* | ACICS | 2009 |
| **Western Culinary Institute** | | |
| Portland, OR (*Le Cordon Bleu College of Culinary Arts Atlanta, Tucker, GA; Le Cordon Bleu College of Culinary Arts Minneapolis/St. Paul, Mendota Heights, MN* ) | ACCSCT | 2012(6) |

(1) Below is a key to the accreditation abbreviations used in the table:
- a. ACCSCT Accrediting Commission of Career Schools and Colleges of Technology
- b. ACICS Accrediting Council for Independent Colleges and Schools
- c. MSA Middle States Association of Colleges and Schools, Commission on Higher Education
- d. NEASC New England Association of Schools and Colleges, Commission on Technical and Career Institutions
- e. NCA North Central Association of Colleges and Schools, Higher Learning Commission
- f. SACS Southern Association of Colleges and Schools, Commission on Colleges

(2) Status as of February 20, 2009.
(3) American InterContinental University and Harrington College of Design have petitioned the NCA to be accredited by this agency.
(4) Accreditation for the Miramar branch campus expires in 2011.
(5) Accreditation has been extended through April 30, 2009, while the school completes the reaccreditation process.
(6) Accreditation for the Tucker branch campus expires in 2010.

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Programmatic accreditation, while not a sufficient basis for institutional Title IV Program certification by the ED, enables 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 program |
| Accreditation Board for Engineering and Technology | Colorado Technical University, Colorado Springs | Engineering programs |
| Accrediting Bureau of Health Education Schools | Colorado Technical University, North Kansas City; McIntosh College; Sanford-Brown College, Collinsville, Fenton, Hazelwood, Houston, and Middleburg Heights; Sanford-Brown Institute, Atlanta, Dallas, Ft. Lauderdale, Garden City, Houston North, Iselin, Jacksonville, Landover, Monroeville, New York, Pittsburgh, Tampa, Trevose, and White Plains | Medical assistant programs |
| Accrediting Bureau of Health Education Schools | Sanford-Brown College, Houston and St. Peters; Sanford-Brown Institute, Dallas, Ft. Lauderdale, Houston North, Iselin, Jacksonville, and Tampa | Surgical technology programs |
| Accrediting Commission for Programs in Hospitality Administration | Pennsylvania Culinary Institute | Hotel and restaurant management program |
| American Culinary Federation Education Institute | California Culinary Academy, California School of Culinary Arts (Pasadena), The Cooking & Hospitality Institute of Chicago, Le Cordon Bleu College of Culinary Arts Atlanta, Le Cordon Bleu College of Culinary Arts Las Vegas, Le Cordon Bleu College of Culinary Arts Minneapolis/St. Paul, McIntosh College (Atlantic Culinary Academy), Orlando Culinary Academy, Pennsylvania Culinary Institute, Scottsdale Culinary Institute, Texas Culinary Academy, Western Culinary Institute | Culinary programs |

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| Accrediting Body | Campus | Program Accredited |
|---|---|---|
| American Culinary Federation Education Institute | California Culinary Academy, Le Cordon Bleu College of Culinary Arts Minneapolis/St. Paul, Orlando Culinary Academy, Pennsylvania Culinary Institute, Scottsdale Culinary Institute, Western Culinary Institute | Pastry and baking programs |
| American Dental Association Commission on Dental Accreditation | Missouri College | Dental assisting program |
| American Society of Health Systems Pharmacists | Sanford-Brown Institute, Monroeville | Pharmacy technician program |
| American Veterinary Medical Association | Sanford-Brown College, Fenton and St. Peters; Sanford-Brown Institute, Pittsburgh | Veterinary technology programs |
| CAAHEP-Accreditation Review Committee on Education in Surgical Technology | Colorado Technical University, North Kansas City; Sanford-Brown College, Houston; Sanford-Brown Institute, Dallas, Ft. Lauderdale, Iselin, Jacksonville, Monroeville and Tampa | Surgical technology programs |
| CAAHEP-Curriculum Review Board of the American Association of Medical Assistants Endowment | Colorado Technical University, Sioux Falls | Medical assistant program |
| CAAHEP-Joint Review Committee on Education in Diagnostic Medical Sonography | Sanford-Brown College, Houston and Middleburg Heights; Sanford-Brown Institute, Atlanta, Dallas, Iselin and Pittsburgh | Diagnostic medical sonography programs |
| Council for Interior Design Accreditation | American InterContinental University, Atlanta/Buckhead and Los Angeles; Harrington College of Design; International Academy of Design & Technology, Chicago and Tampa | Interior design programs |
| Joint Review Commission on Education in Radiologic Technology | Colorado Technical University, North Kansas City; Sanford-Brown College, Fenton; Sanford-Brown Institute, Pittsburgh | Radiologic technology programs |
| Committee on Accreditation for Respiratory Care | Sanford-Brown College, Fenton; Sanford-Brown Institute, Monroeville | Respiratory therapy programs |

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**STUDENT FINANCIAL AID**

Many of our students require assistance in financing their education. For this reason, all of our schools offer financial aid programs and financing options. A majority of students who attend our U.S.-accredited schools are eligible to participate in some form of government-sponsored financial aid programs. Our schools also participate in a number of state financial aid programs and offer private funding options. Our schools that participate in federal financial aid programs are subject to extensive regulatory requirements imposed by federal and state government agencies, including the ED, 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 expenses at any institution that has been certified as eligible by the ED. These federal programs are authorized by the HEA. Generally, financial aid administered under Title IV is awarded on the basis of financial need, which is generally defined under the HEA as the difference between the costs associated with attending an institution and the amount a student can reasonably be expected to contribute to that cost. 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***

The 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 our 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 identifying lenders and guaranty agencies willing to make and guarantee FFEL program loans. Both programs offer Federal Stafford, Federal PLUS, Federal Grad PLUS and Federal Consolidation Loans.

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 are eligible to receive a subsidized Stafford Loan, with the 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 are eligible to receive an unsubsidized Stafford Loan. The student is responsible for paying 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 receive an unsubsidized Stafford Loan.

A student is not required to meet any specific credit scoring criteria to receive a Federal 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. The ED has established maximum annual borrowing limits for Federal Stafford Loans, and these annual limits are generally less than the tuition costs at our U.S. schools.

A Federal PLUS Loan, including Federal Grad PLUS, is a loan made directly to either graduate students or to the parents of our dependent students. Graduate students and parents who have an acceptable credit history

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may borrow under a Federal PLUS Loan to pay the educational expenses of a graduate student or child who is a dependent student enrolled at least half-time at our U.S. schools. The amount of a Federal PLUS Loan cannot exceed the student s cost of attendance less all other financial aid received.

*Federal Grants.* 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. The ED makes Pell Grants up to a maximum amount of $4,731 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 make a 25% matching contribution for all federal funds received under the FSEOG program.

*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.

*Federal Perkins Loan ( Perkins Loan ) Program.* Perkins Loans are made from a revolving institutional account, 75% of which is capitalized by the ED and the remainder of which is funded by the institution. Each institution is responsible for collecting payments on Perkins Loans from its former students and lending those funds to currently enrolled students. Currently, only one of our schools participates in the Perkins Loan program.

*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 full-time, must be a United States citizen, and must be receiving 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 full-time, must be a United States citizen, must be eligible for 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.

*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 signed by President Bush on August 14, 2008 and was immediately effective for many items with others effective in the subsequent award 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.

***Alternative Student Financial Aid Sources***

The financial aid available to our students under Title IV Programs and state programs is generally 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 the FFEL program.

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The fees and interest rates on these private loans are generally higher than the loans made under the FFEL program due to the lack of a government guarantee on these private 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 ) provided the majority of non-recourse private loans to our students in our U.S. schools during the years ended December 31, 2008.

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 are generally less than the amounts available under non-recourse loan programs and often cover 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 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, 2008, we have committed to approximately $36.0 million of funding through extended payments plans. Of this amount, approximately $8.9 million is reflected within our student receivables, net of allowance for doubtful accounts on our consolidated balance sheet.

***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 the 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 the 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 the 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 the 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 or one or more of our schools. See Note 11 Commitments and Contingencies Federal, State, and Accrediting Body 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.

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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 or Pell Grant programs for the remainder of the federal fiscal year in which the ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. 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 the ED determines that the 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, or whose cohort default rate under the Perkins Loan program exceeds 15% for any year, may be placed on provisional certification status by the ED for up to four years. All of our schools have implemented student loan default management programs aimed at reducing the likelihood of our students failure to repay their loans in a timely manner. Those programs emphasize the importance of students compliance with loan repayment requirements and provide for extensive loan counseling, methods to increase student retention and completion rates and graduate employment rates, and proactive borrower contacts after students 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 the 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.

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Our domestic schools participate in the FFEL program or, commencing in 2008, the DL program. For federal fiscal years 2006, 2005, and 2004, the most recent years for which the ED has published such rates, none of our participating schools had a FFEL cohort default rate of 25% or greater. The following table sets forth the cohort default rates for our schools for those federal fiscal years:

**COHORT DEFAULT RATE TABLE**

| School, Main Campus Location | FFEL Cohort Default Rate | | |
|---|---|---|---|
| (Branch campuses are in parentheses) | 2006 | 2005 | 2004 |
| **American InterContinental University** | | | |
| Atlanta/Buckhead, GA (*Atlanta/Dunwoody, GA; Weston, FL; Los Angeles, CA; Houston, TX; London, England; Online*) | 8.6% | 10.1% | 9.1% |
| **Briarcliffe College** | | | |
| Bethpage, NY (*Patchogue, NY* ) | 7.1% | 7.3% | 9.0% |
| **Brooks Institute** | | | |
| Santa Barbara, CA | 1.7% | 3.6% | 4.8% |
| **Brown College** | | | |
| Mendota Heights, MN | 6.1% | 6.4% | 8.1% |
| **California Culinary Academy** | | | |
| San Francisco, CA | 4.3% | 4.0% | 5.3% |
| **California School of Culinary Arts** | | | |
| Pasadena, CA | 3.7% | 6.9% | 6.4% |
| **Collins College** | | | |
| Phoenix, AZ | 7.9% | 10.0% | 13.3% |
| **Colorado Technical University** | | | |
| Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*) | 11.3% | 9.4% | 6.9% |
| **The Cooking & Hospitality Institute of Chicago** | | | |
| Chicago, IL | 7.0% | 9.9% | 11.1% |
| **Gibbs College** | | | |
| Boston, MA | 12.5% | 11.4% | 18.2% |
| Cranston, RI | 7.3% | 9.5% | 10.0% |
| Norwalk, CT | 7.8% | 13.9% | 17.4% |
| Livingston, NJ *(Piscataway, NJ)* (1) | 11.5% | 19.7% | 23.8% |
| **Harrington College of Design** | | | |
| Chicago, IL | 1.7% | 3.3% | 4.5% |
| **International Academy of Design & Technology** | | | |
| Chicago, IL (*Troy, MI; Schaumburg, IL*) | 7.7% | 16.4% | 20.1% |
| Nashville, TN (*Pittsburgh, PA)* (1) | 6.7% | 16.7% | 17.9% |
| Tampa, FL (*Orlando, FL; Henderson, NV; Seattle, WA; Orlando Culinary Academy, Orlando, FL*) | 6.0% | 8.6% | 10.3% |

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**COHORT DEFAULT RATE TABLE**

| School, Main Campus Location (Branch campuses are in parentheses) | FFEL Cohort Default Rate 2006 | 2005 | 2004 |
|---|---|---|---|
| **The Katharine Gibbs Schools** | | | |
| New York, NY *(Norristown, PA)* | 10.9% | 11.9% | 16.1% |
| **Lehigh Valley College** | | | |
| Center Valley, PA | 11.5% | 14.8% | 14.8% |
| **McIntosh College** | | | |
| Dover, NH | 8.7% | 12.8% | 13.3% |
| **Missouri College** | | | |
| St. Louis, MO | 7.7% | 10.4% | 7.9% |
| **Pennsylvania Culinary Institute** | | | |
| Pittsburgh, PA (*Le Cordon Bleu College of Culinary Arts Miami, Miramar, FL*) | 5.2% | 3.5% | 6.8% |
| **Sanford-Brown College** | | | |
| Fenton, MO (*Collinsville, IL; Hazelwood, MO; St. Peters, MO, West Allis, WI*) | 6.2% | 9.9% | 9.7% |
| Vienna, VA (2) | 14.3% | 16.8% | 18.2% |
| **Sanford-Brown Institute** | | | |
| Atlanta, GA (*Houston, TX; Houston/North Loop, TX; Landover, MD; Ft. Lauderdale, FL; SBC Middleburg Heights, OH; New York, NY; Trevose, PA*) | 10.0% | 13.3% | 17.8% |
| Dallas, TX (*Garden City, NY*) | 9.1% | 16.9% | 18.5% |
| Jacksonville, FL (*Iselin, NJ; Tampa, FL*) | 6.1% | 11.6% | 17.0% |
| Pittsburgh, PA *(Monroeville, PA)* (3) | 8.0% | 7.0% | 8.2% |
| White Plains, NY | 12.7% | 22.1% | 20.1% |
| **SBI Campus an Affiliate of Sanford-Brown** | | | |
| Melville, NY (4) | 9.7% | 12.0% | 15.2% |
| **Scottsdale Culinary Institute** | | | |
| Scottsdale, AZ (*Le Cordon Bleu College of Culinary Arts Las Vegas, Las Vegas, NV*) | 5.1% | 5.7% | 4.7% |
| **Texas Culinary Academy** | | | |
| Austin, TX | 8.4% | 6.1% | 11.0% |
| **Western Culinary Institute** | | | |
| Portland, OR (*Le Cordon Bleu College of Culinary Arts Atlanta, Tucker, GA; Le Cordon Bleu College of Culinary Arts Minneapolis/ St. Paul, Mendota Heights, MN*) | 5.5% | 9.9% | 8.9% |

(1) Katharine Gibbs School Piscataway, NJ and International Academy of Design & Technology Pittsburgh, PA ceased operations in December 2008.
(2) Sanford-Brown College Vienna is formerly known as Gibbs College Vienna.
(3) Sanford-Brown Institute Pittsburgh and Monroeville is formerly known as Western School of Health and Business Careers.
(4) SBI Campus an Affiliate of Sanford-Brown is formerly known as Katharine Gibbs School Melville.

*Financial Responsibility Standards.* To participate in Title IV Programs, an institution must satisfy specific financial responsibility measures as prescribed by the ED. The 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. The 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. The ED 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 the 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 the 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 the ED s standard advance funding arrangement.

Currently, none of our schools is required to post a letter of credit or accept other conditions on its participation in Title IV Programs due to failure to satisfy the 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. 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 the ED in an amount equal to 25% of the total Title IV Program refunds paid by the institution during its prior fiscal year. Due to non-compliance with ED refund requirements at two of our schools, we had posted a total of $0.3 million in letters of credit in favor of the ED as of December 31, 2008.

*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 the 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 the 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 the 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 the 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 the 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 the 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. Currently, one of our schools participates in Title IV Programs under provisional certification due to the 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.* The 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 the ED, and meets certain other criteria as defined by the ED. Nevertheless, under certain circumstances, a start-up branch campus may also be required to obtain approval from the 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 the 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 the 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.

As of December 31, 2008, four of our campuses were in the start-up stage. Our LCB Boston, MA campus began instructing students in the second quarter 2008 and our Kitchen Academy campus in Seattle, WA, began instructing students in the third quarter 2008. Our Sanford-Brown Institute in San Antonio, TX and LCB St. Louis, MO campuses are expected to begin instructing students in the second quarter 2009.

*90-10 Rule.* Under a provision of the HEA commonly referred to as the 90-10 Rule, a proprietary institution that fails to derive at least 10% of its revenue from non-Title IV sources at the end of a fiscal year will be placed on provisional participation status for at least two fiscal years. However, if the institution 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 an institution violated the 90-10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the 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.

*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 the ED and various other procedural matters. If an institution fails to satisfy any of the ED s criteria for administrative capability, the ED may require the repayment of Title IV program funds disbursed by the

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institution, place the institution on provisional certification status, require the institution to receive Title IV Program funds under an agreement other than the 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.

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

*Eligibility and Certification Procedures.* Under the provisions of the HEA, an institution must apply to the 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. The 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. The ED may withdraw an institution s provisional certification without advance notice if the 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, 10 of our schools remain on provisional certification with the ED. Four of our schools are on provisional certification due to ongoing ED program reviews, four schools are on provisional certification due to administrative capability, one school is on provisional certification due to an ongoing ED program review and administrative capability, and one school is on provisional certification due to administrative capability and unresolved audit deficiencies.

**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 the ED, and certified as eligible by the ED. The ED will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the HEA and the ED s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance with these requirements to the 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 or diplomas 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 campuses and in other states in which our schools recruit students. Currently, each of our U.S. campuses is authorized by its applicable state licensing agency or agencies.

In addition, several states have requested that we or one of our individual schools enter into a code of conduct regarding student lending practices. Since April, 2007, we, on behalf of our schools, entered into such a code of conduct with the states of New York and Illinois and our Gibbs College, Livingston, NJ school entered into such a code of conduct with the state of New Jersey.

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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. Such severe penalties would require us to close a campus if it were to lose state authorization. See Note 11 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 and Italy and the foreign campuses of our U.S. schools that operate in 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 closely with local regulators to ensure compliance with domestic regulations. Additionally, our AIU campus in the United Kingdom is accredited by a U.S. regional accrediting association, SACS, as a branch of AIU, whose main campus is located in Atlanta, Georgia.

*France.* Our INSEEC Group ( INSEEC ) consists of nine schools, all of which operate exclusively in France and are governed by the French Ministry of Education. Two of INSEEC s schools offer health education programs and, thus, are governed by the French Ministry of Health, the French Ministry of Education and the National Professional Committee for Medical Visits for the schools 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 in the process of registering with 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, PhD-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 five schools have been granted Level III approval. As of December 31, 2008 one of our schools is currently under the renewal process, and another school is under review for a Level III accreditation. These approvals are subject to regular renewal, the schedule for which depends on geographic zones. All Level I renewals from the French Ministry of Education have been obtained as of December 31, 2008.

*United Kingdom.* American InterContinental University London ( AIU London ) has been authorized by the applicable U.S. and United Kingdom agencies to grant academic credentials. AIU London is authorized to grant academic degrees by the Nonpublic Postsecondary Education Commission of the State of Georgia. U.S. students that attend AIU London are eligible to participate in Title IV Programs through AIU London s status as branch campus of AIU Buckhead. AIU London has entered into an accreditation agreement with London South Bank University. AIU London is a Listed Body pursuant to The Education (Listed Bodies) (England) Order 2002.

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*Italy.* Istituto Marangoni, a private postsecondary fashion and design school that we acquired in January 2007, was granted the status of Professional Art School on December 17, 1935, and obtained validation from the Italian Ministry of Education on February 13, 1951.

**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 instruct students over the summer. As a result of these factors, our total student population and revenues are generally highest in the fourth quarter (October through December) and lowest in the second quarter (April through June). Operating costs for our schools do not fluctuate as significantly on a quarterly basis, except for admissions and advertising expenses, which are generally higher during the second and third quarters (April through September) in support of seasonally high enrollment.

**EMPLOYEES**

As of December 31, 2008, we had a total of 13,014 employees, including 1,487 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 | 925 | 34 | | | 57 | 1,016 |
| Continuing operations | 5,138 | 121 | 1,352 | 1,226 | 3,476 | 11,313 |
| Discontinued operations | 197 | 14 | 135 | 124 | 215 | 685 |
| Total | 6,260 | 169 | 1,487 | 1,350 | 3,748 | 13,014 |

Our Katharine Gibbs School in New York, NY and the United Federation of Teachers Local 2 are parties to a collective bargaining agreement which became effective on September 25, 2008, and expires on July 24, 2010. The Union represents all of the full and part-time faculty members at the school.

**OTHER INFORMATION**

Our website address is *www.careered.com*. We make available within the Investors 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.

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**ITEM 1A. RISK FACTORS**
**Risks Related to the Highly-Regulated Industry in Which We Operate**

***Failure of our U.S. schools to comply with the extensive regulatory requirements for school operations could result in 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.***

A significant portion of our revenue and cash flows derive from Title IV Programs, as a significant portion of our U.S.-based students rely on Title IV Program funds to finance their education.

To participate in Title IV Programs, an institution must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by the ED, and be certified by the ED as an eligible institution. Most ED requirements are applied on an institutional basis, with an institution defined by the ED as a main campus and any of its branch campuses or locations. All of our U.S. schools participate in Title IV Programs and so are subject to extensive regulation by the ED, various state agencies and accrediting commissions.

These regulatory requirements cover virtually all phases of our U.S. schools operations, including educational program offerings, facilities, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, return of funds to the Title IV programs for students who withdraw, acquisitions or opening of new institutions, addition of new educational programs, and changes in our corporate structure and ownership. The following are some of the most significant regulatory requirements and risks related to governmental and accrediting body oversight of our business:

- 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 the ED.

- We may be required to post a letter of credit or accept other limitations to continue our U.S. schools participation in Title IV Programs if we or our schools do not meet the 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.

- The ability of our U.S. schools to participate in Title IV Programs may be impaired if regulators do not approve a change of control of us or any of our U.S. schools or of schools we acquire on a timely basis.

- Any of our U.S. schools may lose eligibility to participate in Title IV Programs if, on a cash basis, the percentage of the U.S. school s revenue derived from Title IV Programs for two consecutive fiscal years is greater than 90%.

- We may be required to accept limitations to continue our U.S. schools participation in Title IV Programs if we fail to satisfy the ED s administrative capability standards.

- 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 recruiting, admissions or financial aid activities.

The agencies that regulate our U.S. schools periodically revise their requirements and modify their interpretations of existing requirements. We cannot predict with certainty how all of the requirements applied by these agencies will be interpreted or whether our schools will be able to comply with these requirements in the future.

***Government agencies, regulatory agencies, and third parties may conduct compliance reviews, bring claims or initiate litigation against us based on alleged violations of the extensive regulatory requirements applicable to us, which could require us to pay monetary damages, be sanctioned or limited in our operations, and expend significant resources to defend against those claims.***

Government and regulatory agencies and third parties may bring claims or actions against us based on alleged violations of the extensive regulatory requirements discussed above. If one of our U.S. schools were to violate any of these regulatory requirements, these agencies could (a) impose monetary fines or penalties, (b) require repayment of funds received under Title IV Programs or state financial aid programs, (c) place restrictions on or terminate our U.S. schools eligibility to participate in Title IV Programs or state financial aid programs, (d) place limitations on or terminate our U.S. schools operations or ability to grant degrees and certificates, (e) restrict or revoke our U.S. schools accreditations, (f) place limits on our ability to open new schools or offer new programs, or (g) subject us or our U.S. schools to civil or criminal penalties. Any one of these sanctions could adversely affect our financial condition, results of operations, and cash flows and result in the imposition of significant restrictions on us and our ability to operate.

***Any failure to comply with state authorization and regulatory requirements, or new state legislative or regulatory initiatives affecting our business, could have an adverse effect on our enrollments, business operations, and access to Title IV funds.***

Our schools are subject to extensive state-level regulation and oversight by state licensing agencies, whose approval 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, location and nature of facilities, financial policies, new programs and student instruction, administrative staff, marketing and recruitment, and other operational and administrative procedures. Loss of state authorization for a school results in a school being ineligible to participate in Title IV Programs. 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.

If any of our U.S. schools were to lose eligibility to participate in Title IV Programs, and we could not arrange for adequate alternative financing sources for students attending that school, we could be forced to close it. The closing of any of our U.S. schools could have a material adverse effect on our financial condition, results of operations and cash flows.

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. See Student Financial Aid in Part I, Item 1 of this Annual Report on Form 10-K for further discussion of the regulatory requirements that apply to us and our U.S. schools.

State legislatures often consider legislation affecting regulation of postsecondary educational institutions; enactment of this legislation and ensuing regulations impose substantial costs on our schools to modify their operations in order to comply with the changing regulatory environment. Several states have attempted to assert jurisdiction over schools that hire faculty or staff who live in the state, that advertise and recruit students in the state, or that that have no physical location in the state but offer online programs to students who reside in the state. In the future, states may enact legislation or issue regulations that specifically address online educational programs such as those offered by AIU, CTU and IADT or otherwise affect our schools operations.

If we fail to comply with current state licensing or authorization requirements, or determine that we are unable to cost-effectively comply with new state licensing or authorization requirement, we will lose enrollments and revenues in any affected states, which could materially affect our revenues and our growth opportunities.

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***Our schools eligibility to participate in Title IV Programs depends on complying with ED s financial responsibility standards, administrative capability standards, student loan default rates and the 90-10 Rule.***

To participate in Title IV Programs, our schools must satisfy the ED s quantitative financial responsibility tests, or post a letter of credit in favor of the ED, or possibly accept operating restrictions. The ED applies the 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 other circumstances. ED also may apply the tests to us, as the parent company of our schools, and to other related entities. The ED s operating restrictions include transferring institutions to a cash monitoring system or reimbursement instead of the ED s standard advance funding of Title IV funds, which may result in a significant delay in receiving the funds.

Our schools must satisfy the ED s administrative capability criteria regarding administration of Title IV funds, covering staffing, procedures for disbursing and safeguarding Title IV funds, reporting and other procedural matters. If a school fails to meet these criteria, the ED may require repayment of previously disbursed Title IV funds, place the school on provisional certification status, or transfer the school from the ED s advance funding arrangement to another funding program, impose fines, or limit or terminate the school s participant in Title IV Programs.

If the rates at which our former students default on repaying their federally guaranteed or federally funded students loans exceed ED-specified percentages, one or more of our schools could lose eligibility to participate in Title IV Programs for several years or be placed on provisional certification status by the ED.

Our U. S. schools must meet HEA s 90-10 Rule to continue participating in Title IV Programs. Under that rule, a proprietary school that fails to derive at least 10% of its revenue from non-Title IV sources at the end of a fiscal year will be placed on provisional participation status for two fiscal years. If the school 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 a school violates the 90-10 Rule and became ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, the ED would require the school to repay all Title IV Program funds received by it after the effective date of the loss of eligibility.

Currently, 10 of our schools are on provisional certification with ED, four due to ED ongoing program reviews, four due to administrative capability, one due to ED s ongoing program reviews and administrative capability, and one due to administrative capability and unresolved audit liabilities.

Failure of our schools to maintain eligibility for Title IV programs could increase our costs of regulatory compliance and have a material adverse impact on our financial condition, results of operations, and cash flows. See Student Financial Aid in Part I, Item 1 of this Annual Report on Form 10-K for further discussion of the regulatory requirements that apply to us and our U.S. schools.

***Increased scrutiny by various governmental agencies regarding student loan activities, including relationships between student loan providers and educational institutions and their employees, have produced uncertainty concerning restrictions applicable to administration of Title IV loan programs and the funding for those programs. 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 companies in our industry could adversely affect our business and stock price.***

We and a number of our peer companies in the for-profit, postsecondary education industry have been subject to increased regulatory scrutiny and litigation in recent years. In particular, allegations of wrongdoing have resulted in reviews or investigations by the U.S. Department of Justice, the SEC, the ED, state agencies, and accrediting agencies of us and our schools. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. In 2007 and 2008, state attorneys general, the ED, Congress and other parties have increasingly focused on student loan programs, including Title IV programs.

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There have been allegations of conflicts of interest between some institutions and lenders that provide 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. We are among the schools that have entered into a code of conduct regarding student referrals to lenders with the states of New York and Illinois, as well as New Jersey for our Gibbs College in Livingston, New Jersey.

Allegations against the overall student lending and postsecondary education sectors may impact general public perceptions of educational institutions, including us, in a negative manner. Adverse media coverage regarding other educational institutions or regarding us directly could damage our reputation, reduce student demand for our programs, adversely impact our revenues and operating profit or result in increased regulatory scrutiny.

**Risks Related to Our Business**

***A substantial decrease in student financing options, or a significant increase in financing costs for our students, could have a material adverse affect on our student population, revenue and financial results.***

Tightened credit markets in the U.S. business economy, recent federal legislation and regulations affecting higher education and addressing credit market problems, any changes in federal funding levels for federal student financial aid programs, or changes in other governmental or regulatory bodies laws, regulations and practices relating to other student financial aid programs, could adversely affect our business.

On January 18, 2008, we received notification that Sallie Mae would be terminating its recourse loan program with us, and more broadly within all of the postsecondary education market. Sallie Mae also notified us that while it intends to continue their non-recourse programs with us, Sallie Mae was also reviewing various aspects of such programs, including underwriting criteria. Sallie Mae agreed to extend the recourse loan program past the 30-day termination period to March 31, 2008. During the extension period the discount fee on loans certified during that period increased from 25% to 44%. We were notified by Sallie Mae on February 14, 2008 that it would no longer continue to offer recourse loans to existing students entering their second or subsequent academic term. We are working with third parties as well as internally to implement a funding program that will assist these students in continuing their program of study. We have provided payment plans directly to certain students to ensure that they can finish their existing educational programs with us and to allow new students to attend our schools. As of December 31, 2008, we have committed to approximately $36 million of funding through extended payment plans.

The cumulative impact of recent regulatory and market developments has caused some lenders, including some lenders that have previously provided Title IV loans to our students, to cease providing Title IV loans to students. Other lenders have reduced the benefits and increased the fees associated with the Title IV loans they do provide. In addition, the new regulatory refinements may result in higher administrative costs for schools, including us. If the costs of Title IV loans increase or if availability decreases, some students may decide not to enroll in a postsecondary institution, which could have a material adverse effect on our enrollment, revenue and results of operations. In May 2008, new federal legislation was enacted to attempt to ensure that all eligible students will be able to obtain Title IV loans in the future and that a sufficient number of lenders will continue to provide Title IV loans. Among other things, the new legislation:

- authorizes the ED to purchase Title IV loans from lenders, thereby providing capital to the lenders to enable them to continue making Title IV loans to students; and

- permits the ED to designate institutions eligible to participate in a lender of last resort program, under which federally recognized student loan guaranty agencies will be required to make Title IV loans to all otherwise eligible students at those institutions.

We cannot predict whether this legislation will be effective in ensuring students access to Title IV loan funding through private lenders.

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The Higher Education Opportunity Act ( HEOA ), signed into law on August 14, 2008, is the first full reauthorization of the Higher Education Act of 1965, as amended, since 1998. The HEOA continues Title IV programs through at least September 30, 2014. The HEOA imposes a substantial number of new student lending-related reporting and disclosure obligations on institutions that participate in Title IV federal student financial aid programs. In addition, Congress must annually appropriate funds for Title IV programs. Pending regulations under HEOA and Congress willingness or ability to maintain or increase funding for Title IV programs could adversely impact our ability to participate in the Title IV programs and the availability of Title IV and non-Title IV funding sources for our students.

The August 2008 reauthorization of the Higher Education Act includes significant revisions to the requirements concerning cohort default rates. Under the revised law, the period for which students default on their loans are included in the calculation of an institution s cohort default rate has been extended by one additional year, which is expected to increase the cohort default rates for most institutions. That change will be effective with the calculation of institutions cohort default rates for the federal fiscal year ending September 30, 2009, which rates are expected to be calculated and issued by the ED in 2012. Ineligibility to participate in Title IV Programs would have a material adverse effect on our enrollments, revenues and results of operations.

On October 23, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008, which provides authority for the federal government to purchase and insure certain types of troubled assets for the purposes of providing stability to and preventing disruption in the economy and financial system and protecting taxpayers, and for other purposes. These actions, as well as private lenders willingness and ability to make private student loans and the U.S. markets and general economic conditions, could have a material adverse impact on our business.

In addition, any actions by the U.S. Congress that significantly reduce funding for Title IV Programs or the ability of our students to participate in these programs, or establish different or more stringent requirements for our U.S. schools to participate in Title IV Programs, could have a material adverse effect on our student population, 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. These states could reduce the amount of state student financial aid that they provide, 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 position, and cash flows. Increased state support for public institutions and community colleges, resulting in increased competition for students, could have a material adverse effect on our results of operations, financial position and cash flows.

***If we are unable to successfully resolve pending litigation and regulatory and governmental inquiries involving us, our business, 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 involving students and employees. Please see Note 11 Commitments and Contingencies of the notes to our consolidated financial statements for a detailed discussion of these matters. Additionally, we have been, and may currently be, the subject of 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 the 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. These costs and expenses could have a material adverse effect on our business, financial condition, results of operations and the market price of our common stock. We may also be required to pay substantial damages or settlement costs in excess of our insurance coverage related to these matters, which could have a further material adverse effect on our financial condition and results of operations and the market price of our common stock. In addition, 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 of which 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. Using debt to finance future acquisitions or issuing securities in connection with future acquisitions 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 the ED, most applicable state agencies and accrediting agencies and possibly other regulatory bodies when we acquire an institution.

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 business 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.

***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 business strategy, we 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 than 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 a material adverse effect on our results of operations.

***We need timely approval by applicable regulatory agencies to offer new programs, expand our operations into certain states, or acquire additional schools. If those approvals are not timely, we may have to repay Title IV funds disbursed to students enrolled in these programs, schools and states.***

To open a new school or branch campus, or establish a new educational program, we are required to obtain the appropriate approvals from applicable state and accrediting regulatory agencies, which may be conditioned,

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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. In addition, to be eligible to participate in Title IV Programs, the ED and applicable state and accrediting bodies must certify a new school or branch campus. Our ability to open new schools or new branch campuses of existing schools may be adversely affected by the regulatory matters described in Note 11, Commitments and Contingencies of the notes to our consolidated financial statements.

***If we continue to make acquisitions in foreign countries, we will be subject to the risks inherent in operating in those countries.***

If we continue to acquire schools outside of the U.S., we will be 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, and possible economic or political instability in the countries in which we expand.

***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 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, unusually rapid technological changes, or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could suffer, and our results of operations and cash flows could be adversely affected.

***Our new management team could negatively impact our business.***

A new management team has been put in place over the past 18 months. The new members of our management team may need to invest significant time in learning our business and our markets. Uncertainty may still exist in the marketplace and among students and employees as to how we will perform under the new leadership team. Our business and results of operations may be negatively impacted if the members of our management team cannot effectively manage and operate our business.

***Our corporate realignment initiatives may strain our resources, impair our operations and ability to manage our business effectively, and adversely impact our ability to attract and retain qualified personnel.***

In 2007 and 2008, we undertook various corporate realignment initiatives to reduce costs and increase the use of shared services. In connection with these initiatives, we have restructured our organization and eliminated certain positions. Further reductions may occur as we continue to implement these initiatives. There are severance and other employee-related costs associated with our workforce reductions, and our realignment plan may yield unanticipated consequences, such as attrition beyond the planned reduction. Many of the employees who were terminated possessed specific knowledge or expertise, which we may be unable to transfer to others in our organization. Our corporate realignment initiatives may reduce employee morale and create concern about job security, leading to difficulty in hiring or increased turnover in our current workforce. Employees who were terminated may also go to work for our competitors. Turnover and loss of expertise may place undue strain upon our operational effectiveness and resources.

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***The loss of our key personnel could harm our business.***

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 highly qualified corporate management and our schools ability to attract and retain highly 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 have a material adverse effect on our business, 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, 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 goodwill associated with any of our operating divisions in the future.***

In accordance with the Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 *)*, we review our goodwill balances for impairment on at least an annual basis through the application of a fair-value-based test. Our estimate of fair-value for each of our operating divisions is based primarily on projected future results and cash flows and other assumptions. In the future, if we are required to significantly write down the carrying value of goodwill associated with any of our operating divisions in accordance with SFAS 142, 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, or other societal factors.***

Projections in a September 2008 NCES report show enrollment in degree-granting postsecondary institutions increasing 12% to approximately 19.9 million students over the 10-year period ending in fall 2016, slower than the 23.6% increase reported for the prior 10-year period of 14.4 million in 1996 to 17.8 million in 2006. Such a decline in the overall growth rate in our industry 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. If we cannot attract new students, or develop new curricula to attract prospective students who seek degrees in fields other than our core disciplines, we may be unable to 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.

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***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 campuses intend to increase student enrollments. 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 online campuses.

Our schools online campuses success depends, in part, on their 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.

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, such as students grades, 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, 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.***

The postsecondary education industry is highly fragmented and competitive. Our schools compete with traditional public and private two-year and four-year colleges and universities, other proprietary schools, including those that offer online education programs, 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 public

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and private sector competitors may have substantially greater financial and other resources than we do. We expect to experience more competition as more colleges, universities, and for-profit schools 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 business or financial condition.

***Our future operating results and financial conditions would be materially adversely affected if a change in control is deemed to occur under our share-based compensation plans.***

As of January 2, 2009, one stockholder owned 17.7% of the combined voting power of our then outstanding common stock. If any person or entity (including a group) were to acquire and beneficially own 20% or more of the combined voting power of our common stock under our 1998 Employee Incentive Compensation Plan and 1998 Non-Employee Director Stock Option Plan, or 35% or more of the combined voting power of our common stock under our 2008 Incentive Compensation Plan, a change in control for purposes of those plans would be deemed to have occurred. If a change in control occurred, we would be required to accelerate share-based compensation expense and record an additional liability in an amount equal to the estimated obligation that would be due to those plan participants who have the right and choose to surrender all or part of a share-based award in exchange for cash. This recognition of additional expense could have a material adverse affect on our operating results and financial condition. See Note 14, Share-Based Compensation of the notes to our consolidated financial statements for further discussion of the effects of a change in control under our share-based compensation plans.

***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 business. 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 of 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.

***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.***

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. As a result, our enrollment 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 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.

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**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:

- 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;
- changes in the legal or regulatory environment in which we operate;
- general conditions in the for-profit, postsecondary education industry, including changes in the ED, state laws and regulations and accreditation standards, or availability of student financing;
- the initiation, pendency or outcome of litigation, regulatory reviews and investigations, and any related adverse publicity;
- 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 in the for-profit, postsecondary education industry 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**

Our corporate headquarters are located in Hoffman Estates, Illinois, which is a suburb of Chicago, and our more than 75 schools on-ground campuses are located throughout the United States and in France, Italy and the United Kingdom. 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.

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Almost all of our campus locations and our corporate headquarters locations are leased. As of January 31, 2009, we leased approximately 6.5 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to 20 years. As of January 31, 2009, we leased approximately 0.2 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from three months to nine years. As of January 31, 2009, we owned approximately 0.3 million square feet of real property at the following campuses:

| | |
|---|---|
| American InterContinental University, Houston, Texas | University segment |
| Brooks Institute, Santa Barbara, California | Art & Design segment |
| The Cooking and Hospitality Institute of Chicago, Chicago, Illinois | Culinary Arts segment |
| Pennsylvania Culinary Institute, Pittsburgh, Pennsylvania | 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 11 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.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the fourth quarter of 2008.

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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 |
| **2008** | | |
| First quarter | $ 25.15 | $ 11.57 |
| Second quarter | 20.72 | 12.69 |
| Third quarter | 20.89 | 13.82 |
| Fourth quarter | 18.80 | 12.44 |
| | **High** | **Low** |
| **2007** | | |
| First quarter | $ 32.71 | $ 24.36 |
| Second quarter | 36.68 | 29.16 |
| Third quarter | 35.62 | 25.56 |
| Fourth quarter | 36.09 | 24.72 |

The closing price of our common stock as reported on the NASDAQ on February 19, 2009 was $19.66 per share. As of February 19, 2009, there were 145 holders of record of our common stock.

We have never paid cash dividends on our common stock and have no current 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.

Our Board of Directors has authorized the use of a total of $800.2 million to repurchase outstanding shares of our common stock. Stock repurchases under this program 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.

During 2008, we repurchased approximately 1.0 million shares of our common stock for approximately $13.8 million at an average price of $13.84 per share.

Since the inception of the program, we have repurchased 19.2 million shares of our common stock for approximately $604.4 million at an average price of $31.51 per share. As of December 31, 2008, approximately $195.7 million is available under the program to repurchase outstanding shares of our common stock.

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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 |
|---|---|---|---|---|
| January 1, 2008 January 31, 2008 | | $ | | $ 209,523,823 |
| February 1, 2008 February 29, 2008 | | | | 209,523,823 |
| March 1, 2008 March 31, 2008 | 1,000,000 | 13.84 | 1,000,000 | 195,682,223 |
| April 1, 2008 April 30, 2008 | | | | 195,682,223 |
| May 1, 2008 May 31, 2008 | | | | 195,682,223 |
| June 1, 2008 June 30, 2008 | | | | 195,682,223 |
| July 1, 2008 July 31, 2008 | | | | 195,682,223 |
| August 1, 2008 August 31, 2008 | | | | 195,682,223 |
| September 1, 2008 September 30, 2008 | | | | 195,682,223 |
| October 1, 2008 October 31, 2008 | | | | 195,682,223 |
| November 1, 2008 November 30, 2008 | | | | 195,682,223 |
| December 1, 2008 December 31, 2008 | | | | 195,682,223 |
| Total | 1,000,000 | $ 13.84 | 1,000,000 | |

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, 2008, 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 herein 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, 2008, 2007, 2006, 2005, and 2004, and the balance sheet data as of December 31, 2008, 2007, 2006, 2005, and 2004, are derived from our audited consolidated financial statements.

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2005** | **2004** |
| | (Dollars in thousands, except per share amounts) | | | | |
| **Selected Statement of Operations Data** | | | | | |
| Total revenue | $ 1,705,351 | $ 1,747,430 | $ 1,888,172 | $ 1,963,531 | $ 1,648,331 |
| Operating expenses: | | | | | |
| Educational services and facilities | 654,288 | 636,469 | 620,197 | 595,914 | 523,629 |
| General and administrative | 889,250 | 919,786 | 971,287 | 917,561 | 776,706 |
| Depreciation and amortization | 75,132 | 73,595 | 81,281 | 73,675 | 53,276 |
| Goodwill and asset impairment(1) | 9,013 | 28,226 | 107,387 | 2,915 | |
| Total operating expenses | 1,627,683 | 1,658,076 | 1,780,152 | 1,590,065 | 1,353,611 |
| Operating income | 77,668 | 89,354 | 108,020 | 373,466 | 294,720 |
| *Operating profit margin percentage* | *4.6%* | *5.1%* | *5.7%* | *19.0%* | *17.9%* |
| Total other income | 19,478 | 22,811 | 20,631 | 14,370 | 4,326 |
| Provision for income taxes | 27,570 | 34,681 | 72,842 | 145,594 | 116,718 |
| Income from continuing operations | 69,576 | 77,484 | 55,809 | 242,242 | 182,328 |
| Loss from discontinued operations, net of tax(2) | (9,434) | (17,931) | (9,240) | (8,364) | (2,709) |
| Net income | $ 60,142 | $ 59,553 | $ 46,569 | $ 233,878 | $ 179,619 |
| **Net income (loss) per share-basic:** | | | | | |
| Income from continuing operations | $ 0.77 | $ 0.83 | $ 0.58 | $ 2.40 | $ 1.79 |
| Loss from discontinued operations | (0.10) | (0.19) | (0.10) | (0.08) | (0.03) |
| Net income | $ 0.67 | $ 0.64 | $ 0.48 | $ 2.32 | $ 1.76 |
| **Net income (loss) per share-diluted:** | | | | | |
| Income from continuing operations | $ 0.77 | $ 0.82 | $ 0.57 | $ 2.34 | $ 1.74 |
| Loss from discontinued operations | (0.10) | (0.19) | (0.10) | (0.08) | (0.03) |
| Net income | $ 0.67 | $ 0.63 | $ 0.47 | $ 2.26 | $ 1.71 |

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| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (In thousands) | | | | |
| **Selected Balance Sheet Data** | | | | | |
| Assets: | | | | | |
| Cash, cash equivalents, and investments | $ 508,696 | $ 388,588 | $ 435,368 | $ 396,323 | $ 346,408 |
| Student receivables, net | 59,119 | 59,072 | 50,619 | 73,169 | 81,435 |
| Total current assets | 667,472 | 584,688 | 629,062 | 606,548 | 538,220 |
| Total assets | 1,417,323 | 1,377,782 | 1,425,162 | 1,506,105 | 1,387,012 |
| Liabilities: | | | | | |
| Total current liabilities | 355,295 | 375,903 | 305,549 | 329,338 | 324,542 |
| Total long-term debt and capital lease obligations, net of current maturities | 1,889 | 2,179 | 2,763 | 16,357 | 19,089 |
| Total liabilities | 468,811 | 480,059 | 429,284 | 469,858 | 402,181 |
| Working capital | 312,177 | 208,785 | 323,513 | 277,210 | 213,678 |
| Total stockholders equity | $ 947,652 | $ 886,108 | $ 982,401 | $ 1,036,247 | $ 984,831 |

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (In thousands) | | | | |
| **Selected Statement of Cash Flows Data** | | | | | |
| Net cash provided by operating activities | $ 186,720 | $ 222,075 | $ 216,390 | $ 378,225 | $ 376,154 |
| Net cash (used in) provided by investing activities | (150,787) | 4,813 | (56,453) | (399,537) | (141,770) |
| Net cash used in financing activities | (21,048) | (185,718) | (111,239) | (189,703) | (50,915) |
| Capital expenditures | $ 53,854 | $ 57,586 | $ 69,473 | $ 125,626 | $ 142,781 |

(1) During 2008, we recorded approximately $9.0 million in asset impairment charges, including $7.0 million related to the reduction in asset carrying values for certain campuses within Culinary Arts and Transitional Schools and $2.0 million related to the write-off of an intangible asset within Health Education. During 2007, we recorded asset impairment charges of $28.2 million related to campuses within Transitional Schools and 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 $21.1 million within Transitional Schools and Health Education. See Note 7 Property and Equipment and Note 8 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements for further discussion of the impairments.

(2) See Note 4 Discontinued Operations of the notes to our consolidated financial statements for further discussion of discontinued operations.

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**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, will, 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 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.*

*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 schools.*

**Overview**

We are a global education company committed to quality outcomes and career opportunities for a diverse student population. With over 97,000 students, we are a leading on-ground provider of private, for-profit, postsecondary education in the U.S. and have a substantial presence in online education. Our schools and universities prepare students for careers through the operation of more than 75 on-ground campuses located throughout the United States and in France, Italy and the United Kingdom and three fully-online academic programs.

*2008 Overview*

We began the year with a company-wide restructuring. We removed duplicative management layers by eliminating the Group President position and appointing senior executives to lead multi-disciplinary strategic business units ( SBUs ). We evaluate our business across five SBUs and one Operating Division. Each SBU represents a group of for-profit, postsecondary schools that offer a variety of degree and non-degree academic programs. These SBUs are organized by key market segment to enhance brand focus and operational alignment within each segment. We also created the Transitional Schools division to include all schools that are currently being taught out. By appointing a leader over the Transitional Schools division, we are focused on winding down these operations as effectively and efficiently as possible. As a result of this restructuring, we have six reportable segments: University, Culinary Arts, Health Education, Art & Design, International and Transitional Schools. Results of operations for all periods presented have been adjusted to align with these reportable segments.

***University*** includes our American InterContinental University ( AIU ), Colorado Technical University ( CTU ) and Briarcliffe College schools that collectively offer regionally accredited academic programs in the career-oriented disciplines of business studies, visual communications and design technologies, health education, information technology, criminal justice, and education in an online, classroom, or laboratory setting.

***Culinary Arts*** includes our Le Cordon Bleu ( LCB ) and Kitchen Academy schools that collectively offer culinary arts programs in the career-oriented disciplines of culinary arts, baking and pastry arts, and hotel and restaurant management primarily in a classroom or kitchen setting.

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***Health Education*** primarily includes our Sanford-Brown schools that collectively offer academic programs in the career-oriented disciplines of health education, complemented by certain programs in business studies, visual communications and design technologies, and information technology in a classroom or laboratory setting.

***Art & Design*** includes our Brooks Institute, Brown College, Collins College, Harrington College of Design and International Academy of Design & Technology ( IADT ) schools. Collectively these schools offer academic programs primarily in the career-oriented disciplines of fashion design, game design, graphic design, interior design, film and video production, photography, and visual communications in a classroom, laboratory or online setting.

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

***Transitional Schools*** includes those schools that are currently being taught out. As of December 31, 2008, the following campuses were included within Transitional Schools: McIntosh College; Lehigh Valley College; seven of the campuses that were part of the Gibbs Division, including Gibbs Colleges in Cranston, RI; Boston, MA; Livingston, NJ; Norwalk and Farmington, CT; and Katharine Gibbs Schools in New York, NY and Norristown, PA; and AIU Los Angeles, CA.

See Note 17 Segment Reporting of the notes to our consolidated financial statements for further discussion.

In connection with our organizational changes and our announced plans to teach out certain campuses, eliminations of certain positions within the Company were announced in 2008. Our 2008 results included $14.1 million for severance and stay bonuses associated with these actions. Of this charge, $8.8 million is reflected within Transitional Schools, $2.6 million is reflected within Corporate and other, and approximately $1.0 million is recorded within each Culinary Arts, Art & Design and University. The elimination of positions within Transitional Schools will take place over the course of the teach-out period.

During 2008 we completed the teach-out of four of our campuses, Brooks College Sunnyvale and Long Beach, CA, IADT Pittsburgh, PA and Gibbs College Piscataway, NJ and sold our IADT Toronto, Canada campus. The results of operations for these campuses are reflected within discontinued operations. In connection with the closure of the campuses, we recorded $8.5 million in future minimum lease obligations related to certain of our facilities whose remaining lease terms range from three months to nine years. We recorded a $1.5 million gain on the sale of IADT Toronto which occurred in June 2008. As campuses within Transitional Schools complete their teach-out process, the results of operations for all periods presented will be reported as discontinued operations. At the point in which each campus within Transitional Schools ceases operations, to the extent that the facility s lease has not ended, we would record a charge related to the estimated fair value of the remaining lease obligation. Currently, we estimate that these charges would be approximately $90 $100 million. See Note 4 Discontinued Operations of the notes to our consolidated financial statements for further discussion of our accounting for discontinued operations.

We have spent a considerable amount of time this year focused on student financial aid. In the second quarter 2008, we began to offer funding for eligible students in place of the recourse program that had previously been provided by Sallie Mae. Our recourse loan program offered by Sallie Mae terminated on March 31, 2008. 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, 2008, we have committed approximately $36.0 million of funding through these payment plans. As of December 31, 2008, $8.9 million is reflected within accounts receivable, net on our audited consolidated balance sheets. We continue to review other financing opportunities for our students.

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In 2008, we took steps to optimize our real estate footprint across the company. The current year results of continuing operations include $17.6 million in pretax charges associated with the exit of excess space and the termination of a lease for facilities within Culinary Arts, Art & Design, Transitional Schools and University. The pretax charge is comprised of $12.8 million of lease termination and future minimum lease obligations, which is reflected within the educational services and facilities component of the consolidated statements of operations, and $4.8 million of noncash asset impairment charges resulting from the write-off of the remaining leasehold improvements and other related equipment within the facilities that were exited.

As of December 31, 2008, four of our campuses were in the start-up stage. Our LCB Boston, MA campus began instructing students in the second quarter 2008, and our Kitchen Academy campus Seattle, WA, began instructing students in the third quarter 2008. Our Sanford-Brown Institute in San Antonio, TX and LCB St. Louis, MO campuses are expected to begin instructing students in the second quarter 2009. We continue to look for opportunities to expand our presence both in the U.S. and internationally.

As we exit 2008, we have made a considerable amount of progress against our strategic choices of 1) growing our core educational institutions, 2) entering new markets, 3) improving academic and operational effectiveness, 4) building our reputation and external relationships and 5) growing and developing our people.

**CONSOLIDATED RESULTS**

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, 2008, 2007 and 2006 (dollars in thousands).

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | % of Total Revenue | 2007 | % of Total Revenue | 2006 | % of Total Revenue |
| **TOTAL REVENUE** | $ 1,705,351 | | $ 1,747,430 | | $ 1,888,172 | |
| *Student Starts* | *102,400* | | *102,200* | | *96,800* | |
| **OPERATING EXPENSES** | | | | | | |
| Educational services and facilities | 654,288 | 38.4% | 636,469 | 36.4% | 620,197 | 32.8% |
| General and administrative: | | | | | | |
| Advertising and admissions expense | 449,268 | 26.3% | 487,199 | 27.9% | 519,358 | 27.5% |
| Administrative expense | 395,986 | 23.2% | 386,916 | 22.1% | 392,580 | 20.8% |
| Bad debt expense | 43,996 | 2.6% | 45,671 | 2.6% | 59,349 | 3.1% |
| Total general and administrative expense | 889,250 | 52.1% | 919,786 | 52.6% | 971,287 | 51.4% |
| Goodwill and asset impairment | 9,013 | | 28,226 | | 107,387 | |
| **OPERATING INCOME** | 77,668 | 4.6% | 89,354 | 5.1% | 108,020 | 5.7% |
| **PROVISION FOR INCOME TAXES** | 27,570 | | 34,681 | | 72,842 | |
| *Effective tax rate* | *28.38%* | | *30.92%* | | *56.62%* | |
| **INCOME FROM CONTINUING OPERATIONS** | 69,576 | 4.1% | 77,484 | 4.4% | 55,809 | 3.0% |
| **LOSS FROM DISCONTINUED OPERATIONS, net of tax** | (9,434) | | (17,931) | | (9,240) | |
| **NET INCOME** | $ 60,142 | 3.5% | $ 59,553 | 3.4% | $ 46,569 | 2.5% |

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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, 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, 2008 as Compared to the Year Ended December 31, 2007**

***Revenue***

Total revenue decreased $42.1 million, or 2.4%, from 2007. The overall decrease in revenue is primarily attributable to year over year declines in Transitional Schools, Culinary Arts and Art & Design, partially offset by increases in Health Education and International. Culinary Arts and Art & Design s student populations declined in 2008 as compared to the prior year due in part to the loss of third party student loan financing for certain students. This reduction in student populations resulted in lower revenue in 2008. As campuses within Transitional Schools wind down their operations, the number of students remaining to complete their studies declines. As such, revenue within Transitional Schools will continue to decline. Health Education s revenues increased over the prior year due to strong growth in student populations and increased starts. International s increased revenue over the prior year can be attributed to strong student population growth, $5.7 million of favorable foreign currency exchange rates and $3.3 million of additional revenue in 2008 related to the acquisition of Istituto Marangoni at the end of January 2007.

***Educational Services and Facilities Expense***

Educational services and facilities expense increased $17.8 million as compared to the prior year. During 2008, we took steps to optimize our real estate footprint and as a result, the current year expense includes $12.8 million of charges related to the termination of a dormitory lease at one of our Culinary Arts schools and the recording of future minimum lease obligations for space that was vacated within Culinary Arts, Art & Design and University. The current year also includes $6.9 million of severance and stay bonus expense associated with our decision to teach out certain campuses and our efforts to reduce redundancies within our organization. In addition, academic costs increased as compared to the prior year to support the revenue growth within Health Education and International. International expenses were also negatively impacted by effects of foreign currency exchange rates.

***General and Administrative Expense***

General and administrative expense decreased $30.5 million as compared to the prior year. The prior year results include expenses of approximately $15.4 million related to the settlement of certain legal matters. The current year expenses include $7.2 million of severance and stay bonus expense associated with our decision to teach out certain campuses and our efforts to reduce redundancies within the organization and $6.3 million net expense associated with the settlement of certain legal matters. Excluding these expenses, general and administrative expenses declined significantly due to a reduction in spending required to support our Transitional Schools and lower admissions expense.

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Bad debt expense incurred by each of our reportable segments during the years ended December 31, 2008 and 2007 was as follows (dollars in thousands):

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | % of Segment Revenue | 2007 | % of Segment Revenue |
| **Bad debt expense by segment:** | | | | |
| University | $ 12,722 | 1.8% | $ 15,363 | 2.2% |
| Culinary Arts | 14,297 | 4.4% | 11,839 | 3.2% |
| Health Education | 8,392 | 3.6% | 10,509 | 5.1% |
| Art & Design | 7,035 | 2.7% | 4,131 | 1.5% |
| International | 642 | 0.6% | 334 | 0.4% |
| Subtotal | 43,088 | 2.6% | 42,176 | 2.6% |
| Transitional Schools | 1,220 | 1.8% | 3,356 | 2.9% |
| Corporate and other | (312) | N/A | 139 | N/A |
| Total bad debt expense | $ 43,996 | 2.6% | $ 45,671 | 2.6% |

The increase in bad debt expense as a percentage of segment revenue within Culinary Arts and Art & Design is a result of higher accounts receivable balances. The increase in the accounts receivable balances is due in part to the number of students participating in our extended payment plan programs. As these students are making smaller in-school payments, their respective accounts receivable balances are growing.

***Goodwill and Asset Impairment***

During 2008, we recorded approximately $9.0 million in asset impairment charges, including $7.0 million related to the reduction in asset carrying values for certain campuses within Culinary Arts and Transitional Schools and $2.0 million related to the write-off of an intangible asset within Health Education.

***Operating Income***

Operating income for both 2008 and 2007 includes a number of significant items. 2008 operating income includes $12.8 million in lease exit costs, $14.1 million in severance and stay bonus expense, $9.0 million of asset impairment charges and $6.3 million of net expense associated with legal settlements. 2007 operating income includes $28.2 million in asset impairment charges and $15.4 million in expenses associated with legal settlements.

***Provision for Income Taxes***

Our consolidated effective income tax rate for continuing operations was 28.4% for the year ended December 31, 2008 and 30.9% for the year ended December 31, 2007. The decline in our effective income tax rate was primarily due to the recognition of a permanent tax benefit on the sale of a foreign entity, a higher percentage of our income from continuing operations resulting from certain operations in Europe which operate on a not-for-profit basis and the 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. We identify items that are not normal and recurring in nature and treat these as discrete events. The tax effect of discrete items is booked entirely in the period in which the discrete event occurs. Additionally, tax legislation and tax examinations in the jurisdictions in which we do business may change our effective tax rate in future periods. While such changes cannot be predicted, if they occur, the impact on our tax assets, obligations and liquidity will need to be measured and recognized in the financial statements.

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*Loss from Discontinued Operations*

The results of operations for Brooks College Sunnyvale and Long Beach, CA, IADT Toronto, Canada, IADT Pittsburgh, PA and Gibbs College Piscataway, NJ for all periods presented comprise the loss from discontinued operations. During the fourth quarter, we ceased operations at Brooks College Long Beach, CA, IADT Pittsburgh, PA and Gibbs Piscataway, NJ and during the second quarter, we sold IADT Toronto, Canada and ceased operations at Brooks College Sunnyvale, CA. We do not anticipate any further significant costs from any of these campuses. As other campuses within Transitional Schools cease operations in the future, we will reclassify their results of operations for all periods presented to discontinued operations. We anticipate that all but one of the ten remaining schools within Transitional Schools will cease operations during 2009. See Note 4 Discontinued Operations of the notes to our consolidated financial statements for further discussion of our discontinued operations.

**Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006**

*Revenue*

Total revenue decreased $140.7 million, or 7.5% from 2006. The overall decrease in revenue is primarily attributable to year over year declines in University, Transitional Schools and Art & Design being partially offset by increases in International, Health Education and Culinary Arts. University revenue declined 18.0% over the prior year due to several factors. AIU student starts and average student populations declined as compared to the prior year, primarily due to the impact of the Commission on Colleges of the Southern Association of Colleges and Schools ( SACS ) probationary status which was not lifted until December 2007. In addition, University experienced a shift in population mix that included an increase in CTU students, which has lower revenue per student than AIU, and an increase in students in University s fully-online associated degree programs, which offer lower tuition rates than those of the University s fully-online bachelor s degree and master s degree programs. Within Transitional Schools, as campuses wind down their operations, the number of students remaining to complete their studies declines. As such, revenue within Transitional Schools continues to decline. Health Education s revenues increased over the prior year due to strong growth in student populations and increased starts. International s increased revenue over the prior year can be attributed to the acquisition of Istituto Marangoni in January 2007 which contributed $19.0 million of revenue, increased average student population driving a $12.0 million increase in revenue at our INSEEC schools and $6.9 million of favorable foreign currency exchange rates.

*Educational Services and Facilities Expense*

The increase in educational services and facilities expense is primarily attributable to $9.0 million of Istituto Marangoni costs included in 2007 as a result of their acquisition by us in January 2007, increased occupancy costs across most of our segments and increased academic costs primarily within International and Culinary Arts. These increases were partially offset by decreases in other student-related expenses, including the costs of laptop computers, textbooks, and other program materials, attributable to decreases in student population at certain schools during 2007.

*General and Administrative Expense*

The decrease in general and administrative expense is primarily attributable to a decrease in admissions, advertising and bad debt expenses incurred within University and a decrease in administrative and admissions expense in Corporate and other, partially offset by increases in Culinary Arts, Health Education and International. Included within the 2007 general and administrative expenses was $15.4 million in legal settlement costs associated with matters within Art & Design and Transitional Schools. Additionally, included in general and administrative expenses during 2006 were charges of approximately $4.0 million and $1.7 million, respectively, attributable to future cash severance payments payable to our former Chairman, John Larson, and share-based compensation expense recorded in connection with modifications made during the fourth quarter of 2006 to certain stock options held by him.

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The decrease in University s administrative expenses during 2007 is primarily attributable to a $21.5 million decrease in bad debt expense as a result of a decline in AIU student population and related student receivables and improved cash collections experience, a $22.1 million decrease in admissions expense associated with admission headcount reductions along with lower average student population, and a $3.7 million decrease in advertising costs as a result of a planned reduction in advertising spending based upon strategic initiatives utilizing a target marketing approach and more effective media sources.

The increases in administrative, advertising, marketing and admissions costs incurred by Health Education and Culinary Arts were primarily attributable to variable costs incurred to support increased student enrollments and starts. The increase in the costs incurred by International was primarily attributable to $8.6 million in general and administrative expenses incurred by Istituto Marangoni, which we acquired in January 2007.

Bad debt expense incurred by each of our reportable segments during the years ended December 31, 2007 and 2006 was as follows (dollars in thousands):

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2007 | % of Segment Revenue | 2006 | % of Segment Revenue |
| **Bad debt expense by segment:** | | | | |
| University | $ 15,363 | 2.2% | $ 36,906 | 4.3% |
| Culinary Arts | 11,839 | 3.2% | 5,207 | 1.4% |
| Health Education | 10,509 | 5.1% | 6,774 | 3.6% |
| Art & Design | 4,131 | 1.5% | 2,766 | 1.0% |
| International | 334 | 0.4% | 783 | 1.5% |
| Subtotal | 42,176 | 2.6% | 52,436 | 3.0% |
| Transitional Schools | 3,356 | 2.9% | 4,711 | 3.3% |
| Corporate and other | 139 | N/A | 2,202 | N/A |
| Total bad debt expense | $ 45,671 | 2.6% | $ 59,349 | 3.1% |

The overall decrease in bad debt expense during 2007 is primarily attributable to (1) a decrease in overall student receivable exposure at a majority of our schools, (2) overall improvement in student retention, and (3) improvement in our collections experience.

***Goodwill and Asset Impairment***

During 2007, we recorded approximately $28.2 million in asset impairment charges related to the reduction in asset carrying values for certain campuses within Transitional Schools. During 2007, these campuses were either being held for sale or were in the process of being taught out. The charges relate to the reduction of the carrying value of long-lived assets to their fair value, less cost to sell.

In 2006, we recorded approximately $86.3 million in goodwill and other intangible asset impairment charges related to our Health Education segment and approximately $21.1 million in asset impairment charges related to a reduction in asset values of certain campuses with Transitional Schools and Health Education.

***Operating Income***

The decrease in the 2007 operating income as compared to the prior year is primarily attributable to the decline in University s operating profit. The decline in University s operating profit was primarily attributable to the negative effects of the SACS probation status for the AIU universities along with increased competition.

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***Provision for Income Taxes***

Our consolidated effective income tax rate for continuing operations was 30.9% for the year ended December 31, 2007, as compared to 56.6% for the comparable prior-year period. The decline in our effective income tax rate was primarily due to only $8.0 million of our total $86.3 million Health Education goodwill and intangible asset impairment charge taken in 2006 being deductible for income tax purposes. As such, there was no income tax benefit for the non-deductible portion of the charge.

***Loss from Discontinued Operations***

The results of operations for Brooks College Sunnyvale and Long Beach, CA, IADT Toronto, Canada, IADT Pittsburgh, PA and Gibbs College Piscataway, NJ for all periods presented comprise the loss from discontinued operations.

**SEGMENT RESULTS**

The following tables set forth unaudited historical segment results for the periods presented (dollars in thousands). Results for the prior year have been reclassified to be comparable to the current year presentation, primarily due to realignment reflecting the Company s current organizational structure and our decision to teach out campuses that were previously held for sale.

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | **% Change** | **2007** | **% Change** | **2006** | **% Change** |
| **REVENUE:** | | | | | | |
| University | $ 702,347 | 0% | $ 703,639 | -18% | $ 857,805 | -4% |
| Culinary Arts | 328,313 | -10% | 365,789 | 0% | 364,168 | -5% |
| Health Education | 235,546 | 14% | 206,700 | 10% | 187,077 | 7% |
| Art & Design | 263,715 | -4% | 275,392 | -4% | 286,635 | 0% |
| International | 107,558 | 31% | 81,907 | 61% | 50,895 | 14% |
| Subtotal | 1,637,479 | 0% | 1,633,427 | -6% | 1,746,580 | -2% |
| Transitional Schools | 67,863 | -40% | 113,856 | -19% | 140,694 | -23% |
| Corporate and other | 9 | | 147 | | 898 | |
| Total revenue | $ 1,705,351 | -2% | $ 1,747,430 | -7% | $ 1,888,172 | -4% |

| | **2008** | **Profit Margin Percentage** | **2007** | **Profit Margin Percentage** | **2006** | **Profit Margin Percentage** |
|---|---|---|---|---|---|---|
| **OPERATING INCOME (LOSS):** | | | | | | |
| University | $ 122,757 | 17.5% | $ 102,371 | 14.5% | $ 214,571 | 25.0% |
| Culinary Arts | (5,908) | -1.8% | 49,133 | 13.4% | 60,642 | 16.7% |
| Health Education | 22,559 | 9.6% | 6,425 | 3.1% | (87,078) | -46.5% |
| Art & Design | 28,057 | 10.6% | 32,499 | 11.8% | 51,683 | 18.0% |
| International | 18,860 | 17.5% | 13,024 | 15.9% | 11,456 | 22.5% |
| Subtotal | 186,325 | 11.4% | 203,452 | 12.5% | 251,274 | 14.4% |
| Transitional Schools | (38,837) | -57.2% | (61,646) | -54.1% | (59,792) | -42.5% |
| Corporate and other | (69,820) | | (52,452) | | (83,462) | |
| Total operating income | $ 77,668 | 4.6% | $ 89,354 | 5.1% | $ 108,020 | 5.7% |

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| | 2008 | 2007 | 2006 | % Change 2008 vs. 2007 | % Change 2007 vs. 2006 |
|---|---|---|---|---|---|
| **STUDENT STARTS:** | | | | | |
| University | 55,500 | 52,200 | 51,000 | 6% | 2% |
| Culinary Arts | 10,000 | 11,700 | 10,900 | -15% | 7% |
| Health Education | 19,000 | 16,200 | 14,400 | 17% | 13% |
| Art & Design | 9,000 | 9,300 | 9,100 | -3% | 2% |
| International | 7,500 | 6,500 | 4,500 | 15% | 44% |
| Subtotal | 101,000 | 95,900 | 89,900 | 5% | 7% |
| Transitional Schools | 1,400 | 6,300 | 6,900 | -78% | -9% |
| Total student starts | 102,400 | 102,200 | 96,800 | 0% | 6% |

**Year Ended December 31, 2008 as Compared to the Year Ended December 31, 2007**

***University s*** operating results for the years ended December 31, 2008 and 2007 are as follows:

| | Revenue 2008 | Revenue 2007 | Operating Income 2008 | Operating Income 2007 | Profit(loss) Margin 2008 | Profit(loss) Margin 2007 |
|---|---|---|---|---|---|---|
| **AIU** | | | | | | |
| Online | $ 298,279 | $ 311,321 | $ 73,041 | $ 74,361 | 24.5% | 23.9% |
| On-ground | 76,418 | 88,398 | (14,124) | (16,262) | -18.5% | -18.4% |
| **CTU** | | | | | | |
| Online | 240,652 | 216,432 | 63,419 | 44,006 | 26.4% | 20.3% |
| On-ground | 53,758 | 50,533 | (365) | 161 | -0.7% | 0.3% |
| **Briarcliffe** | 33,240 | 36,955 | 786 | 105 | 2.4% | 0.3% |
| **Total University** | $ 702,347 | $ 703,639 | $ 122,757 | $ 102,371 | 17.5% | 14.5% |

***University.*** Current year revenue was down slightly compared to the prior year as growth in University s online platforms was offset by declines in the on-ground universities. Average revenue per student declined over the prior year primarily due to growth in the student population in the University s fully-online associate degree programs, which maintain lower tuition rates than bachelor s degree and master s degree programs. This decline was partially offset by increases in student population and revenue in CTU s online and on-ground platforms.

Current year operating income increased by $20.4 million as compared to the prior year. Operating profit margin improved both within our on-ground and online platforms. The operating income improvement over the prior year is primarily due to a reduction in admissions expense resulting from actions taken to improve productivity within our admissions process.

***Culinary Arts.*** Current year revenue declined 10% as compared to the prior year primarily due to a decrease in average student population primarily due to the loss of third party student loan financing for certain students. 2008 starts were down 15% as compared to the prior year. The introduction of our extended payment plans during the second quarter 2008 along with the increased Title IV funding led to increases in student starts in the fourth quarter of 2008; however, this improvement was not enough to overcome the shortfalls experienced earlier in the year.

Culinary Arts current year operating loss includes $15.2 million in lease exit and related asset impairment charges associated with the exit of a dormitory and other facility and a $7.6 million charge associated with the settlement of certain legal matters. These charges, in addition to the significant decline in revenue as compared to the prior year and an increase in bad debt expense, led to the decline in operating results in the current year.

***Health Education***. Current year revenue increased 14% over the prior year due to strong growth in student populations of 21% over the prior year associated with increased student starts of 17% higher than the prior year. Health Education s current year revenue is also benefiting from a decrease in student attrition and improved completion rates of programmatic studies.

Health Education increased its operating income by $16.1 million and expanded its operating profit margin by 650 basis points in 2008 as compared to 2007 driven by increased revenue and lower administration costs and lower bad debt expense. Health Education continued to focus its efforts in 2008 on improving productivity and operating leverage. Bad debt expense declined due to improved collection efforts at the school level. Current year operating income includes a $2.0 million intangible asset impairment charge as a result of changing the name of two of our campuses from Western School of Health and Business Careers to Sanford-Brown Institute. The prior year operating income includes a $6.5 million charge related to the settlement of a legal matter and $1.7 million related to asset impairment charges recorded for the two former Gibbs College campuses that were previously held for sale.

***Art & Design.*** Current year revenue declined 4% from the prior year due to a reduction in student starts and related population. Lower student starts related to the elimination of third party student loan financing for certain prospective students and a higher level of attrition in the current year as compared to the prior year account for the decreases. These impacts are being partially offset by the growth in revenue of the newer campuses, IADT-Sacramento, CA, IADT-San Antonio, TX and the fully-online campus of IADT. Excluding the positive revenue impact of these three campuses, Art & Design revenue would have been down approximately 10% as compared to the prior year period.

Art & Design s current year operating income declined driven by the lower revenue and increased bad debt expense as compared to the prior year. More students within Art & Design are utilizing extended payment plans to help fund their education. The estimated allowance for doubtful accounts charged against revenue related to these extended payment plans is higher than for other funding sources. As a result, bad debt expense as a percentage of revenue increased over the prior year. The prior year operating income also included a $4.1 million charge related to the settlement of a legal matter.

***International.*** Current year revenue increased 31% as compared to the prior year. The increase in revenue as compared to the prior year is driven by strong student population growth. Additionally, the current year revenue includes approximately $5.7 million due to favorable foreign currency exchange rates and $3.3 million of additional revenue in the first quarter 2008 as compared to the prior year period due to the acquisition of Istituto Marangoni at the end of January 2007.

Higher utilization of facilities and faculty members contributed to the operating income and margin expansion as compared to the prior year. Current year operating income also includes approximately $1.0 million related to favorable foreign currency exchange rates.

***Transitional Schools.*** Current year revenue declined as compared to the prior year due to the schools no longer enrolling students. We expect revenue to continue to decline as compared to the prior year as the schools continue to wind down their operations. As a result of our decision to teach out all programs at the majority of the schools previously held for sale and our company-wide restructuring, the results of operations for ten of our schools, including: McIntosh College; Lehigh Valley College; seven of the campuses that were part of the Gibbs Division, including Gibbs Colleges in Cranston, RI; Boston, MA; Livingston, NJ; Norwalk and Farmington, CT; and Katharine Gibbs Schools in New York, NY and Norristown, PA; and AIU Los Angeles, CA are reflected within Transitional Schools for all years presented herein.

Operating loss within Transitional Schools improved as compared to the prior year. This improvement results from the prior year operating loss including $26.6 million of asset impairment charges and $4.8 million

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related to the settlement of certain legal matters. The 2007 asset impairment charges related to the reduction of the carrying value of the net assets held for sale to their fair value, less costs to sell.

***Corporate and other.*** This includes costs that are incurred on behalf of the entire company, including costs attributable to legal, finance, human resources, marketing and certain centralized activities related to student financing, including financial aid process, student account posting and collections. We allocate a portion of these expenses to our strategic business units based upon a percentage of revenue. The current year increase in expenses within corporate and other as compared to the prior year is primarily due to increased compensation costs as we continue to centralize various support functions across the Company. In addition, the current year expense includes an additional $10.9 million associated with performance-based incentive programs resulting from our attainment of 2008 operating performance targets.

**Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006**

***University s*** operating results for the years ended December 31, 2007 and 2006 are as follows:

| | Revenue | | Operating Income | | Profit (loss) Margin | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **AIU** | | | | | | |
| Online | $ 311,321 | $ 464,864 | $ 74,361 | $ 181,477 | 23.9% | 39.0% |
| On-ground | 88,398 | 106,389 | (16,262) | (6,972) | -18.4% | -6.6% |
| **CTU** | | | | | | |
| Online | 216,432 | 193,735 | 44,006 | 33,681 | 20.3% | 17.4% |
| On-ground | 50,533 | 49,632 | 161 | 799 | 0.3% | 1.6% |
| **Briarcliffe** | 36,955 | 43,185 | 105 | 5,586 | 0.3% | 12.9% |
| **Total University** | $ 703,639 | $ 857,805 | $ 102,371 | $ 214,571 | 14.5% | 25.0% |

***University***. Revenue in 2007 decreased as compared to 2006 primarily due to a decrease in average revenue per student as well as a decline in average population as compared to the prior year. The decrease in average revenue per student was attributable to a population mix change that included an increase in CTU students, which has a lower revenue per student than AIU, and an increase in students in University s fully-online associate degree programs, which offer lower tuition rates than those of University s fully-online bachelor s degree and master s degree programs. The increase in online associate degree-seeking students was a result of a pricing reduction in our AIU Online associate programs and strong student population growth at CTU Online. The decline in average population was driven by a decline in average population for both AIU online and on-ground being partially offset by an increase in the average CTU Online population. We believe that the declines in the AIU student population and student starts were primarily attributable to the continuing effects of the SACS probation status, which was lifted in December 2007. The SACS probation status that remained in place during the majority of the academic school year negatively impacted those schools ability to recruit new students. The effects of the SACS probation status resulted in a decrease in student population and revenue at each of our AIU universities.

The combined revenue for University s fully-online platforms, including AIU Online and CTU Online, decreased $130.8 million, or 19.9%, from $658.6 million during the year ended December 31, 2006, to $527.8 million during the year ended December 31, 2007.

Operating income declined $112.2 million primarily due to the significant reduction in revenue. AIU Online s operating profit margin percentage declined from 39.0% during 2006 to 23.9% during 2007. As discussed above, declines in AIU Online operations and student population had a disproportionately negative impact on the entire segment s results.

***Culinary Arts.*** Revenue increased slightly primarily due to an increase in student enrollments and student starts during 2007, relative to student enrollments and student starts during 2006.

Operating income declined $11.5 million in 2007 as compared to the prior year driven by increased bad debt expense and higher academics costs. Bad debt expense increased $6.6 million in 2007 as compared to 2006 as a result of higher student receivable balances.

***Health Education.*** Revenue increased 10.5% as compared to the prior year driven by tuition price increases introduced in 2006, increased average student population during 2007 relative to average student population during 2006, continued strengthening in student enrollments at our Health Education schools and a shift in student enrollment mix that resulted in higher average revenue per student.

The increase in operating income in 2007 as compared to 2006 was primarily due to the prior year s operating income including $90.3 million in goodwill and asset impairment charges. During 2007, Health Education s operating income included a $6.5 million charge related to the settlement of a certain legal matter. Excluding the impact of both of these items, operating income would have increased $9.7 million driven by increased revenue.

***Art & Design.*** Revenue declined 3.9% as compared to the prior year primarily due to a decline in student population as well as a decline in student starts and enrollments during 2007 as compared to 2006. Revenue was also negatively impacted by certain legal and regulatory matters and the related negative publicity impacting certain of our schools as well as general competitive pressures for student leads and enrollments.

The decline in operating income in 2007 as compared to the prior year was driven by a reduction in revenue, increased academic costs necessary to support the efforts of our start-up campuses, including our fully online platform which began enrolling students in July 2007 as well as a $4.1 million charge related to the settlement of a legal matter.

***International.*** The increase in 2007 revenue as compared to the prior year is primarily attributable to the acquisition of Istituto Marangoni in January 2007. Istituto Marangoni contributed $19.0 million in revenue during 2007. In addition, our INSEEC schools revenue increased $12.0 million over the prior year as a result of increased average student population. Finally, favorable foreign currency exchange rates contributed $6.9 million to the $31.0 million increase over the prior year s revenue.

***Transitional Schools***. During 2007, the majority of the schools included in Transitional Schools were classified as held-for-sale. In connection with our decision in the first quarter 2008 to teach out all programs at the majority of the schools previously held for sale and our company-wide restructuring, the results of operations for ten of our schools, including: McIntosh College; Lehigh Valley College; seven of the campuses that were part of the Gibbs Division, including Gibbs Colleges in Cranston, RI; Boston, MA; Livingston, NJ; Norwalk and Farmington, CT; and Katharine Gibbs Schools in New York, NY and Norristown, PA; and AIU Los Angeles, CA are reflected within Transitional Schools for all years presented herein. In the years ended 2007 and 2006, we recorded goodwill and asset impairment charges of $26.6 million and $17.1 million within Transitional Schools. The 2007 charge related to the reduction of the carrying value of the net assets held for sale to their fair value less costs to sell. The 2006 charge included a goodwill impairment charged related to our Gibbs division of $10.4 million and a charge of $6.7 million to reduce the carrying value of net assets held for sale to fair value, less costs to sell.

***Corporate and other.*** This includes costs that are incurred on behalf of the entire company, including costs attributable to legal, finance, human resources, marketing and certain centralized activities related to student financing, including financial aid process, student account posting and collections. We allocate a portion of these expenses to our strategic business units based upon a percentage of revenue.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

We have identified the accounting policies and estimates listed below as those that we believe require management s most subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 2 Summary of Significant Accounting Policies of the notes to our consolidated financial statements which includes a discussion of these and other significant accounting policies.

**Revenue Recognition**

Our revenue is derived primarily from academic programs taught to students who attend our schools. We generally segregate our revenue into two categories, (1) tuition and registration fees and (2) other. Tuition and registration fees represent costs to our students for educational services provided by our schools. We generally bill a student for tuition and registration fees at the beginning of an academic term, and we recognize the tuition and registration fees as revenue on a straight-line basis over the academic term, which includes any applicable externship period. The portion of tuition and registration fees payments received from students but not earned is recorded as deferred tuition revenue and reflected as a current liability on our consolidated balance sheet, as such amount represents 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, we refund the portion of tuition and registration fees already paid that, pursuant to our refund policy and applicable federal and state law and accrediting agency standards, we are not entitled to retain.

Our schools academic year is generally at least 30 weeks in length but varies both by school and program of study and is divided by academic terms. Academic terms are determined by start dates, which also vary by school and program. Our schools charge tuition at varying amounts, depending on the school and on the type of program and specific curriculum. Our students finance tuition costs through a variety of funding sources, including, among others, federal loan and grant programs, state grant programs, private loans and grants, private and institutional scholarships, and cash payments.

Other revenue consists of, among other things, bookstore sales, student laptop computer sales, dormitory revenue, restaurant revenue, contract training revenue, and cafeteria revenue. Revenue from dormitory and cafeteria services is generally billed to a student at the beginning of an academic term and is recognized on a straight-line basis over the term of a student s dormitory and cafeteria use. Other dormitory and cafeteria revenue, as well as student laptop computer sales, bookstore sales, restaurant revenue, and contract training revenue, is billed and recognized as services are performed or goods are delivered.

Certain of our schools bill students a single charge that covers tuition and required program materials, such as textbooks and supplies. Such billings, which we treat as a single accounting unit, are recognized as tuition and registration fee revenue on a straight-line basis over the applicable academic term.

**Allowance for Doubtful Accounts**

We extend unsecured credit to a portion of the students who are enrolled at our schools for tuition and certain other educational costs. Based upon past experience and judgment, we establish an allowance for doubtful accounts with respect to tuition receivables. Our allowance estimation methodology considers a number of factors that, based on our collections experience, we believe have an impact on students credit risk and the realizability of our student receivables. Among these factors are a student s status (in-school or out-of-school), anticipated funding source (for example, federal loan or grant, state grant, private loan, student cash payments, etc.), whether or not an out-of-school student has completed his or her program of study, and our overall collections experience. Out-of-school students include students who have withdrawn from or completed their programs of study. All other students are classified as in-school students.

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We monitor our collections and write-off experience to assess whether adjustments to our allowance percentage estimates are necessary. Changes in trends in any of the factors that we believe impact the realizability of our student receivables, as noted above, or modifications to our credit standards, collection practices, and other related policies may impact our estimate of our allowance for doubtful accounts and our financial results.

A one percentage point change in our allowance for doubtful accounts as a percentage of gross student receivables from operations as of December 31, 2008, would have resulted in a change in income from continuing operations of $0.9 million during the year then ended.

Because a substantial portion of our revenue is derived from Title IV Programs, any legislative or regulatory action that significantly reduces the funding available under Title IV Programs, or the ability of our students or schools to participate in Title IV Programs, would likely have a material adverse effect on our business, results of operations, cash flows, and financial condition, including the realizability of our receivables.

**Goodwill and Indefinite-Lived Intangible Assets**

Goodwill represents the excess of cost over fair market value of identifiable net assets acquired through business purchases. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), we review goodwill and indefinite-lived intangible assets for impairment on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill and other indefinite-lived intangible assets, we must make assumptions regarding the fair value of our reporting units, as defined under SFAS 142. If our fair value estimates or related assumptions change in the future, we may be required to record impairment charges related to goodwill and other indefinite-lived intangible assets.

In performing our annual review of goodwill balances for impairment, we estimate the fair value of each of our reporting units based primarily on projected future operating results and cash flows and other assumptions. Projected future operating results and cash flows used for valuation purposes may reflect considerable improvements relative to historical periods with respect to, among other things, revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically, projected operating results and cash flows have not always been achieved. The failure of one of our reporting units to achieve projected operating results and cash flows in the near term or long term may reduce the estimated fair value of the reporting unit below its carrying value and result in the recognition of a goodwill impairment charge. We monitor the operating results and cash flows of our reporting units on a quarterly basis for signs of possible declines in estimated fair value and goodwill impairment. See Note 8 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements for further discussion of goodwill impairment considerations and related charges we recognized during the year ended December 31, 2008.

**Long-Lived Assets**

On an ongoing basis, we review property and equipment, definite-lived intangible assets, and other long-lived assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, we will recognize an impairment loss if the undiscounted future cash flows expected to be generated by the asset is less than the carrying value of the related asset. The impairment loss would adjust the asset to its estimated fair value.

In evaluating the recoverability of long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the estimated fair value of such assets. If our fair value estimates or related assumptions change in the future, we may be required to record impairment charges related to long-lived

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assets and definite-lived intangible assets. See Note 7 Property and Equipment of the notes to our consolidated financial statements for further discussion of long-lived asset impairment considerations and related charges we recognized during the year ended December 31, 2008.

**Income Taxes**

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). This requires the recognition of deferred income taxes based upon the tax consequences of temporary differences between financial reporting and income tax reporting by applying enacted statutory income tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. SFAS 109 also requires that deferred income tax assets be reduced by a valuation allowance if it is more likely than not that some portion of the deferred income tax asset will not be realized.

In connection with the preparation of our consolidated financial statements, we are required to estimate our income tax liability for each of the tax jurisdictions in which we operate. This process involves estimating our actual current income tax expense and assessing temporary differences resulting from differing treatment of certain income or expense items for income tax reporting and financial reporting purposes. We also recognize as deferred income tax assets the expected future income tax benefits of net operating loss carry forwards. In evaluating the realizability of deferred income tax assets associated with net operating loss carry forwards, we consider, among other things, expected future taxable income, the expected timing of the reversals of existing temporary reporting differences, and the expected impact of tax planning strategies that may be implemented to prevent the potential loss of future income tax benefits. Changes in, among other things, income tax legislation, statutory income tax rates, or future taxable income levels could materially impact our valuation of income tax assets and liabilities and could cause our income tax provision to vary significantly among financial reporting periods.

On January 1, 2007, we adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which is an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The initial application of FIN 48 to our tax positions had no effect on our stockholders equity.

**LIQUIDITY, FINANCIAL POSITION, AND CAPITAL RESOURCES**

As of December 31, 2008, cash, cash equivalents, and investments totaled $508.7 million. Our cash flows from operations have historically been adequate to fulfill our liquidity requirements. We finance our operating activities and our organic growth primarily through cash generated from operations. We finance acquisitions primarily through funding from credit facility borrowings and cash generated from operations. We anticipate that we will be able to satisfy the cash requirements associated with, among other things, our working capital needs, capital expenditures, and lease commitments through at least the next 12 months primarily with cash generated by operations, existing cash balances, and, if necessary, borrowings under our existing credit agreement.

The U.S. Department of Education ( ED ) requires that Title IV Program funds collected in advance of student billings be kept in a separate cash account until students are billed for the portion of their program related to those Title IV Program funds collected. The ED further requires that Title IV Program funds be disbursed to students within three business days of receipt. We do not recognize restricted cash balances on our consolidated

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balance sheet until all restrictions have lapsed with respect to those balances. As of December 31, 2008 and 2007, the amount of restricted cash balances recorded in separate cash accounts was not significant. Also included in cash and cash equivalents within our consolidated balance sheets are amounts related to certain of our European campuses that are operated as not-for-profit schools. The cash and cash equivalents related to these schools have restrictions which require that the funds be utilized for these particular not-for-profit schools. The amount of not-for-profit cash and cash equivalents with restrictions was $48.2 million and $39.9 million at December 31, 2008 and December 31, 2007, respectively. Restrictions on these cash balances have not affected, nor do we believe that such restrictions will affect, our ability to fund our daily operations.

**Sources and Uses of Cash**

***Operating Cash Flows***

During the years ended December 31, 2008 and 2007, net cash flows provided by operating activities totaled $186.7 million and $222.1 million, respectively.

Our primary source of cash flows from operating activities is tuition collected from our students. Our students finance tuition costs through the use of a variety of funding sources, including, among others, federal loan and grant programs, state grant programs, private loans and grants, school payment plans, private and institutional scholarships and cash payments. The following table summarizes our U.S. schools cash receipts from tuition payments by fund source as a percentage of total tuition payments received for the years ended December 31, 2008, 2007 and 2006. The percentages reflected therein were determined based upon our U.S. schools cash receipts for the 12-month period ended December 31.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| **Title IV Program funding** | | | |
| Stafford Loans | 50.4% | 44.1% | 41.5% |
| Grants | 13.8% | 11.5% | 9.6% |
| PLUS Loans | 5.0% | 7.1% | 8.2% |
| Total Title IV Program funding | 69.2% | 62.7% | 59.3% |
| **Private loans** | | | |
| Non-recourse loans | 8.7% | 14.9% | 19.5% |
| Sallie Mae recourse loans | 1.3% | 2.7% | 2.3% |
| Stillwater recourse loans | 0.0% | 0.0% | 0.3% |
| Total private loans | 10.0% | 17.6% | 22.1% |
| **Scholarships, grants and other** | 4.3% | 3.7% | 3.1% |
| **Cash payments** | 16.5% | 16.0% | 15.5% |
| **Total tuition receipts** | 100.0% | 100.0% | 100.0% |

The total Title IV Program funding as a percentage of total tuition receipts reflected above was not computed on the same basis on which our 90-10 Rule ratios are computed. In accordance with applicable regulations, certain tuition receipts included in the totals above were excluded from our 90-10 Rule ratio calculations.

For further discussion of Title IV Program funding and alternative private loan funding sources for our students, see Student Financial Aid and Alternative Student Financial Aid Sources in Part I, Item 1 Business of this Annual Report on Form 10-K.

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Our primary uses of cash to support our operating activities include, among other things, cash paid to employees for services, to vendors for products and services, to lessors for rents and operating costs related to leased facilities, to suppliers for textbooks and other school supplies, and to federal, state, and provincial governments for income and other taxes.

Although we anticipate that we will be able to satisfy cash requirements for working capital needs, capital expenditures, and commitments through at least the next year primarily with cash generated by our operations, existing cash balances and, if necessary, borrowings under our existing credit agreement, we are not able to assess the effect of loss contingencies on future cash requirements and liquidity. See Note 11 Commitments and Contingencies of the notes to our consolidated financial statements for additional discussion of these matters.

***Investing Cash Flows***

During the year ended December 31, 2008, net cash flows used in investing activities totaled $150.8 million compared to net cash flows provided by investing activities of $4.8 million for the year ended December 31, 2007. During 2007, we utilized $224.3 million of cash to repurchase 7.4 million shares of our common stock whereas; we utilized only $13.8 million to repurchase 1.0 million shares in 2008. As a result, we had invested more of our operating cash flow in 2008.

*Capital Expenditures.* Capital expenditures decreased $3.7 million, or 6.4%, from $57.6 million during the year ended December 31, 2007, to $53.9 million during the year ended December 31, 2008. Capital expenditures represented 3.1% and 3.2%, respectively, of total revenue from continuing and discontinued operations during the years ended December 31, 2008 and 2007.

*Acquisition of Istituto Marangoni.* On January 25, 2007, we acquired 100% of the issued and outstanding stock of Istituto Marangoni for approximately $37.2 million, excluding acquired cash balances of approximately $6.9 million. The purchase price was funded with cash generated from operating activities.

*Purchases and Sales of Available-for-Sale Investments*. Purchases and sales of available-for-sale investments resulted in a net cash outflow of $97.3 million and a net cash inflow of $95.1 million during the years ended December 31, 2008 and 2007, respectively.

***Financing Cash Flows***

During the years ended December 31, 2008 and 2007, net cash flows used in financing activities totaled $21.1 million and $185.7 million, respectively.

*Credit Agreement.* As of December 31, 2008, we had no outstanding debt under our U.S. Credit Agreement. Letters of credit totaling approximately $12.4 million were outstanding under our U.S. Credit Agreement. The credit availability under our U.S. Credit Agreement as of December 31, 2008 was $172.6 million. See Note 9 Debt and Credit Agreements of the notes to our consolidated financial statements for additional discussion of our outstanding indebtedness and credit agreement.

*Repurchases of Shares.* During the year ended December 31, 2008, we repurchased approximately 1.0 million shares of our common stock for approximately $13.8 million at an average price of $13.84 per share. During the year ended December 31, 2007, we repurchased approximately 7.4 million shares of our common stock for approximately $224.3 million at an average price of $30.26 per share. Repurchases of shares during 2008 and 2007 were funded by cash generated from operating activities. As of December 31, 2008, we were authorized to use an additional $195.7 million to repurchase shares of our common stock under our stock repurchase program.

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**Contractual Obligations**

As of December 31, 2008, future minimum cash payments due under contractual obligations, including, among others, non-cancelable operating and capital lease agreements, and other long-term arrangements, were as follows (in thousands):

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 & Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Operating lease obligations | $ 130,164 | $ 120,978 | $ 107,975 | $ 101,035 | $ 97,855 | $ 346,709 | $ 904,716 |
| Capital lease obligations(1) | 457 | 457 | 457 | 457 | 229 | | 2,057 |
| Total contractual cash obligations(2) | $ 130,621 | $ 121,435 | $ 108,432 | $ 101,492 | $ 98,084 | $ 346,709 | $ 906,773 |

(1) The capital lease obligations include both the future principal payment amount as well as an amount calculated for expected future interest payments.

(2) Due to uncertainty regarding the completion of tax audits and possible outcomes, we do not know the timing of when our obligations related to unrecognized tax benefits of $37.6 million will occur, if at all. See Note 12 Income Taxes of the notes to our consolidated financial statements for additional detail.

*Operating Lease Obligations.* We lease most of our administrative and educational facilities and equipment under non-cancelable operating leases expiring at various dates through 2028. Lease terms generally range from five to ten years with one to two renewal options for extended terms. The amounts included in the table above represent future minimum lease payments for non-cancelable operating leases for continuing operations and discontinued operations.

*Capital Lease Obligations.* We have assumed capital lease obligations in connection with certain acquisitions. As of December 31, 2008, the balance of outstanding capital lease obligations was approximately $2.1 million, which includes accrued interest of approximately $0.3 million.

*Off-Balance Sheet Arrangements.* As of December 31, 2008, we were not a party to any off-balance sheet financing or contingent payment arrangements, nor do we have any unconsolidated subsidiaries.

**Changes in Financial Position December 31, 2008 compared to December 31, 2007**

Selected consolidated balance sheet account changes from December 31, 2007, to December 31, 2008, were as follows:

| | As of December 31, 2008 | 2007 | % Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| **ASSETS** | | | |
| Current assets: | | | |
| Total cash and cash equivalents and investments | $ 508,696 | $ 388,588 | 31% |
| Student receivables, net | 59,119 | 59,072 | 0% |
| Assets of discontinued operations | 5,003 | 31,170 | -84% |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Payroll and related benefits | 63,757 | 33,119 | 93% |
| Deferred tuition revenue | 153,727 | 158,845 | -3% |
| Liabilities of discontinued operations | 8,753 | 15,472 | -43% |
| Non-current liabilities: | | | |
| Deferred rent obligations | 97,644 | 97,504 | 0% |

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*Cash and cash equivalents and investments.* The increase in cash and cash equivalents and investments is primarily attributable to less share repurchases in 2008 as compared to 2007. As such, higher amounts of operating cash flow were invested in 2008.

*Student receivables, net.* Our allowance for doubtful accounts as a percentage of gross student receivables and days sales outstanding ( DSO ) from operations as of and for the twelve months ended December 31, 2008, 2007 and 2006 were as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Allowance for doubtful accounts as a percentage of gross student receivables | 37.4% | 37.1% | 37.9% |
| DSO (in days) | 15 | 14 | 12 |

We calculate DSO by dividing net receivables, including both student receivables and other receivables, by annual average daily revenue. Annual average daily revenue is computed by dividing total revenue for the twelve months ended December 31, by 365 days.

The increase in DSO to 15 days as of December 31, 2008 as compared with 14 days as of December 31, 2007 resulted from slightly lower average revenue per day. Allowance for doubtful accounts as a percentage of gross student receivables increased as of December 31, 2008 from December 31, 2007 due primarily to the use of extended payment plans which have a higher estimated allowance for bad debt than other sources of funding utilized by our students.

*Assets of discontinued operations.* The decrease in assets of discontinued operations is primarily attributable to the closure of four campuses and the sale of one campus in 2008.

*Payroll and related benefits.* The increase in the payroll and related benefits liabilities is primarily due to the Company achieving its annual incentive compensation metrics in 2008.

*Deferred tuition revenue.* Tuition revenue is recognized on a straight-line basis over the academic term, which includes any applicable externship period. The decrease in deferred tuition revenue is primarily due to timing of academic term completions and the mix of programs for which revenue is being earned.

*Liabilities of discontinued operations.* The decrease in liabilities of discontinued operations is primarily attributable to the closure of four campuses and the sale of one campus in 2008.

**Litigation and Regulatory Matters**

See Note 11 Commitments and Contingencies of the notes to our consolidated financial statements for a discussion of selected litigation and regulatory matters affecting our business.

**Recent Accounting Pronouncements**

See Note 3 Recent Accounting Pronouncements of the notes to our consolidated financial statements for a discussion of recent accounting pronouncements that may affect us.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**
We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. We use various techniques to manage our market risk, including, from time to time, the use of derivative financial instruments. We do not use derivative financial instruments for speculative purposes.

A portion of our municipal bond investments are auction rate securities ( ARS ) with maturities generally every 28 or 35 days. ARS generally have stated terms to maturity of greater than one year. However, we classify investments in ARS as current on our consolidated balance sheets due to our ability to divest our holdings at auction maturity, which is less than one year. Auctions can fail when the number of sellers of the security exceeds the buyers for that particular auction period. In the event that an auction fails, the interest rate resets at a rate based on a formula determined by the individual security. The ARS for which auctions have failed continue to accrue interest and are auctioned on a set interval until the auction succeeds, the issuer calls the securities, or they mature. As of December 31, 2008, we do not consider the value of our investments in ARS to be impaired. If, however, the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge on these investments. Municipal bonds that are invested in ARS were $12.9 million and $166.6 million as of December 31, 2008 and 2007, respectively.

**Interest Rate Exposure**

Any outstanding borrowings under our credit agreement bear annual interest at variable rates tied to the prime rate and the British Bankers Association LIBOR rate. As of December 31, 2008, we had no outstanding borrowings under these agreements. The outstanding borrowings under this credit agreement as of December 31, 2007 were $11.2 million.

We estimate that the book value of our investments, debt instruments, and any derivative financial instruments approximated their fair values as of December 31, 2008 and 2007. We believe that the exposure of our consolidated financial position and results of operations and cash flows to adverse changes in interest rates is not significant.

**Foreign Currency Exposure**

We are subject to foreign currency exchange exposures arising from current and anticipated transactions denominated in currencies other than the U.S. dollar, and from the translation of foreign currency balance sheet accounts into U.S. dollar balance sheet accounts. Specifically, we are subject to risks associated with fluctuations in the value of the Euro and the British pound vis-à-vis the U.S. dollar. Our investment in our foreign operations as of December 31, 2008, was not significant to our consolidated financial position, and the book values of the assets and liabilities of such foreign operations as of December 31, 2008, approximated their estimated fair values.

We believe that the exposure of our consolidated financial position and results of operations and cash flows to adverse changes in foreign currency exchange rates is not significant.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**
The financial information required by Item 8 is contained in Part IV, Item 15 of this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**
None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We completed an evaluation as of the end of the period covered by this Report under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this Report was recorded, processed, summarized, and reported within the time periods specified in the rules and forms provided by the U.S. Securities and Exchange Commission ( SEC ) and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on the Effectiveness of Controls**

Our management does not expect that our disclosure controls and procedures or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Management s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles.

Based upon the evaluation under the framework contained in the COSO Report, management concluded that, as of December 31, 2008, our internal control over financial reporting was effective.

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Ernst & Young LLP, our independent registered public accounting firm, who audited and reported on the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting. This attestation report is included on page 69 of this Annual Report on Form 10-K.

**ITEM 9B. OTHER INFORMATION**

None.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2009 Annual Meeting of Stockholders.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2009 Annual Meeting of Stockholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Certain of the information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2009 Annual Meeting of Stockholders.

The following table provides information as of December 31, 2008, with respect to shares of our common stock that may be issued under our existing equity compensation plans:

**EQUITY COMPENSATION PLAN INFORMATION**

| Plan Category | (a) Number of shares to be issued upon exercise of outstanding options | (b) Weighted-average exercise price of outstanding options | (c) Number of shares remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 2,915,634(1) | $ 29.29 | 9,086,147(2) |
| Equity compensation plans not approved by stockholders | 200,000(3) | $ 19.60 | |
| Total | 3,115,634 | $ 28.67 | 9,086,147 |

(1) Includes outstanding options to purchase shares of our common stock under the Career Education Corporation 1998 Employee Incentive Compensation Plan, 1998 Non-Employee Director Incentive Compensation Plan and 2008 Incentive Compensation Plan.

(2) Includes shares available for future issuances under the Career Education Corporation 2008 Incentive Compensation Plan and excludes securities reflected in column (a). In addition to stock options, the Career Education Corporation 2008 Incentive Compensation Plan provides for the issuance of stock appreciation rights, restricted stock, deferred stock, stock, dividend equivalents, other stock-based awards, performance awards, or cash incentive awards.

(3) We have an agreement with Le Cordon Bleu Limited that gives us the exclusive right to use the Le Cordon Bleu name in North America. Under this agreement, we pay Le Cordon Bleu Limited royalties based on eligible culinary revenues collected from students enrolled in Le Cordon Bleu culinary programs at our schools. On August 30, 2002, we issued an option to purchase 200,000 shares of our common stock to Le Cordon Bleu Limited in connection with an amendment to this license agreement. The option was immediately exercisable at an

exercise price per share of $19.60 and expires on August 29, 2012. The exercise price of the option represents 90 percent of the average closing sale price of our common stock during the five trading days ended August 29, 2002. The option was issued pursuant to an exemption under Section 4(2) of the Securities Act of 1933, as amended. The issuance was made without general solicitation or advertising.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2009 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2009 Annual Meeting of Stockholders.

## PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**1. Financial Statements**

The financial statements listed in the Index to Financial Statements (page 68) are filed as part of this Annual Report.

**2. Financial Statement Schedules**

These schedules have been omitted because the required information is included in the consolidated financial statements or notes thereto or because they are not applicable or not required.

**3. Exhibits**

The exhibits listed in the Index to Exhibits (pages 113 116) are filed as part of this Annual Report.

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## SIGNATURES

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 20th day of February 2009.**

CAREER EDUCATION CORPORATION

By: /s/ MICHAEL J. GRAHAM
**Michael J. Graham,**
*Executive Vice President and Chief Financial Officer*

*(Principal Financial Officer)*

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.**

| Signature | Title | Date |
|---|---|---|
| /s/ GARY E. MCCULLOUGH<br>**Gary E. McCullough** | President and Chief Executive Officer (Principal Executive Officer) | February 20, 2009 |
| /s/ MICHAEL J. GRAHAM<br>**Michael J. Graham** | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | February 20, 2009 |
| /s/ COLLEEN M. O SULLIVAN<br>**Colleen M. O Sullivan** | Senior Vice President and Chief Accounting Officer (Principal Accounting Officer) | |