CAREER EDUCATION CORP
Form 10-K
March 01, 2007

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, 2006,

or

o 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 (State of or other jurisdiction of incorporation or organization)	**36-3932190** (I.R.S. Employer Identification No.)
2895 Greenspoint Parkway, Suite 600 **Hoffman Estates, Illinois** (Address of principal executive offices)	**60169** (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 o

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 o 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 o

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.   o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934):

Large accelerated filer   x   Accelerated filer   o   Non-accelerated filer   o

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 o   No x

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant, based upon the $29.89 per share closing sale price of the Registrant s common stock on June 30, 2006 (the last business day of the Registrant s most recently completed second quarter), was approximately $1,524,952,231. 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 43,676,968 shares of the Registrant s voting common stock on June 30, 2006.

Number of shares of Registrant s common stock, par value $0.01, outstanding as of February 27, 2007, was 94,890,370.

Portions of the Registrant s Notice of Annual Meeting and Proxy Statement for the Registrant s 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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 used 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 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, 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.

BUSINESS OVERVIEW

We are a dynamic educational services company committed to quality, career-focused learning and led by passionate professionals who inspire individual worth and lifelong achievement. Since our founding in 1994, we have progressed rapidly toward our goal of becoming the world s leading provider of quality educational services. We are one of the world s leading on-ground providers of private, for-profit, postsecondary education and have a substantial presence in online education. Our schools and universities prepare students for professionally and personally rewarding careers through the operation of 71 on-ground campuses located throughout the United States and in France, Canada, Italy and the United Kingdom and two fully-online academic programs.

Our schools and universities offer doctoral degree, master s degree, bachelor s degree, associate degree, and non-degree certificate and diploma programs in the following core career-oriented disciplines:

- *Culinary Arts:* Programs within this discipline include culinary arts, hotel and restaurant management, and baking and pastry arts.

- *Visual Communication and Design Technologies:* Programs within this discipline include desktop publishing, graphic design, fashion design and merchandising, interior design, graphic imaging, web page design, animation, photography, game design, digital film and media and visual journalism.

- *Health Education:* Programs within this discipline include medical assistance, medical billing and coding, massage therapy, pharmacy technician, diagnostic medical ultrasound, cardiovascular technician, surgical technician, dental assistance, and medical office administration.

- *Business Studies:* Programs within this discipline include business administration, business operations, merchandising management, business administration and marketing, paralegal studies, hospitality management, criminal justice, and education.

- *Information Technology:* Programs within this discipline include PC/LAN, PC/Net, computer technical support, computer network operation, computer information management, computer science and computer engineering and computer programming.

We evaluate our business based on our operating segments, which we define as our operating divisions. Each of our school and university operating divisions represents a group of for-profit, postsecondary schools that offer a variety of degree and non-degree academic programs and are differentiated based on a variety of criteria including, but not limited to, brand name, academic offerings, and geographic location. We have six school reportable segments, consisting of the Academy segment, the Colleges segment, the Culinary Arts segment, the Health Education segment, the International segment (formerly known as the INSEEC segment), and the University segment and one non-school reportable segment, the JDV Online segment.

The Academy segment includes our International Academy of Design and Technology (IADT) campuses that collectively offer academic programs primarily in the career-oriented discipline of visual communications and design technologies in a classroom setting.

The Colleges segment includes schools that collectively offer academic programs in our core career-oriented disciplines of business studies, health education, information technology, and visual communications and design technologies in a classroom or laboratory setting.

The Culinary Arts segment includes our Le Cordon Bleu 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.

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

The International segment includes our INSEEC Group schools that are located throughout France and collectively offer academic programs in the career-oriented disciplines of business studies, health education, and visual communication and technologies in a classroom or laboratory setting.

The University segment includes our American Intercontinental University (AIU) and Colorado Technical University (CTU) universities that collectively offer academic programs in the career-oriented disciplines of business studies, visual communication and design technologies, health education, information technology, criminal justice, and education in an online, classroom, or laboratory setting.

The JDV Online segment was launched in October 2004 and focuses on the development of a range of short-term online learning and informational programs that generates revenue through the sale of products, premium digital content, and advertising space. The JDV Online segment s primary ventures include Chefs.com, a consumer-focused culinary website, and Blish.com, a comprehensive online marketplace aimed at uniting buyers and sellers of digital content. During 2007, in connection with our commitment to a more focused business strategy, we will be eliminating our JDV Online segment by transferring Chefs.com to our Culinary Arts segment and discontinuing Blish.com.

See Note 18 Segment Reporting of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of the financial results of our reporting segments for each of the last three years.

Division and Campus Information

Total student population for continuing operations as of January 31, 2007 and 2006 was approximately 89,300 students and 94,100 students, respectively. Included in total student population for continuing operations as of January 31, 2007 and 2006, were approximately 28,600 students and 32,700 students, respectively, enrolled in our University segment s fully-online academic platforms. Total student population for continuing operations by operating division as of January 31, 2007 and 2006, and related continuing operations student population demographic information as of January 31, 2007 and 2006, were as follows:

Student Population by Segment:

	As of January 31,	
	2007	2006
University segment	41,000	46,400
Culinary segment	10,900	11,500
Health Education segment(1)	11,600	10,700
Colleges segment	8,700	10,200
Academy segment	9,500	9,800
International segment	7,600	5,500
	89,300	94,100

Student Population by Age Group:

	As a Percentage of Total Student Population as of January 31,	
Age Group	2007	2006
Under 21	20 %	19 %
21 to 30	48 %	47 %
Over 30	32 %	34 %

Student Population by Core Curricula:

	As a Percentage of Total Student Population as of January 31,	
	2007	2006
Business Studies	43 %	44 %
Visual Communication and Design Technologies	23 %	22 %
Health Education	13 %	13 %
Culinary Arts	12 %	12 %
Information Technology	9 %	9 %

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(1) Student population excludes SBI Springfield, which is currently being taught out.

Student Population by Degree Granting Program:

	As a Percentage of Total Student Population as of January 31,	
	2007	**2006**
Doctoral, Master s, Bachelor s Degree	51 %	55 %
Associate s Degree	35 %	32 %
Certificate	14 %	13 %

Total student starts for continuing operations during the years ended December 31, 2006 and 2005, were approximately 92,150 students and 107,410 students, respectively. Included in total student starts for continuing operations during the years ended December 31, 2006 and 2005, respectively, were approximately 42,400 student starts and 54,400 student starts attributable to our University segment s fully-online academic platforms. Total student starts for continuing operations by operating segment for the years ended December 31, 2006 and 2005, were as follows:

	For the Year Ended December 31,	
	2006	**2005**
University segment	50,740	64,890
Culinary segment	10,890	11,050
Health Education segment(1)	13,530	12,360
Colleges segment	5,370	6,960
Academy segment	7,090	8,110
International segment	4,530	4,040
	92,150	107,410

(1) Student starts excludes SBI Springfield, which is currently being taught out.

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

SCHOOL AND CAMPUS INFORMATION TABLE

School and Campus Locations	**Website**	**Year School Founded**	**Date Acquired/ Opened(1)**	**Principal Curricula(2)**
ACADEMY DIVISION:				
International Academy of Design & Technology (IADT)		1977 (3)		B, IT, VC
IADT Chicago, *Chicago, IL*	www.iadtchicago.edu		6/97	
IADT Detroit, *Troy, MI*	www.iadtdetroit.com		10/03 *	
IADT Las Vegas, *Henderson, NV*	www.iadtvegas.com		4/04 *	
IADT Nashville, *Nashville, TN*	www.iadtnashville.com		7/04 *	
IADT Orlando, *Orlando, FL*	www.iadt.edu		4/01 *	
IADT Pittsburgh, *Pittsburgh, PA*	www.iadtpitt.edu		2/97	
IADT Schaumburg, *Schaumburg, IL*	www.iadtschaumburg.com		1/04 *	
IADT Seattle, *Seattle, WA*	www.iadtseattle.com		10/04 *	
IADT Tampa, *Tampa, FL*	www.academy.edu		6/97	
IADT Toronto, *Toronto, Canada*	www.iadt.ca		6/97	
COLLEGES DIVISION:				
Briarcliffe College	www.bcl.org	1966	4/99	B, IT, VC
Briarcliffe College, *Bethpage and Queens, NY*(4)				
Briarcliffe College, *Patchogue, NY*				

Brooks Institute of Photography, *Santa Barbara and Ventura, CA*(4)	www.brooks.edu	1945	6/99	VC
Brown College, *Mendota Heights and Brooklyn Center, MN*(4)	www.browncollege.edu	1946	10/95	B, HE, IT, VC
Collins College, *Tempe and Phoenix, AZ*(4)	www.collinscollege.edu	1978	1/94	IT, VC
Harrington College of Design, *Chicago, IL*	www.interiordesign.edu	1931	1/99	VC
CULINARY ARTS DIVISION:				
California Culinary Academy, *San Francisco, CA*	www.baychef.com	1977	4/00	CA
California School of Culinary Arts, *Pasadena, CA*	www.csca.edu	1994	3/98	CA
The Cooking & Hospitality Institute of Chicago, *Chicago, IL*	www.chic.edu	1983	2/00	CA
Kitchen Academy, *Hollywood, CA*	www.kitchenacademy.com	2005	7/05 *	CA
Kitchen Academy, *Sacramento, CA*		2007	2/07 *	CA
Le Cordon Bleu College of Culinary Arts (LCB)				CA
LCB Atlanta, *Tucker, GA*	www.atlantaculinary.com	2003	10/03 *	
LCB Las Vegas, *Las Vegas, NV*	www.vegasculinary.com	2003	7/03 *	
LCB Miami, *Miramar, FL*	www.miamiculinary.com	2003	6/04 *	
LCB Minneapolis/St. Paul, *Mendota Heights, MN*	www.twincitiesculinary.com	2000	1/00 *	
Orlando Culinary Academy, *Orlando, FL*	www.orlandoculinary.com	2002	7/02 *	CA
Pennsylvania Culinary Institute, *Pittsburgh, PA*	www.pci.edu	1986	12/01	CA
Scottsdale Culinary Institute, *Scottsdale, AZ*	www.chefs.edu	1986	10/98	CA
Texas Culinary Academy, *Austin, TX*	www.tca.edu	1985	8/01	CA
Western Culinary Institute, *Portland, OR*	www.wci.edu	1983	10/96	CA
HEALTH EDUCATION DIVISION:				
Missouri College, St. Louis, MO	www.missouricollege.com	1963	9/02	HE, IT, VC
Sanford-Brown College (SBC)	www.sanford-brown.edu	1866(5)	7/03	B, HE, IT
SBC Collinsville, *Collinsville, IL*				
SBC Fenton, *Fenton, MO*				
SBC Hazelwood, *Hazelwood, MO*				
SBC St. Peters, *St. Peters MO*				
SBC Milwaukee, *West Allis, WI*			6/05 *	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu	1977(6)	7/03	HE
SBI Atlanta, *Atlanta, GA*				
SBI Dallas, *Dallas, TX*				
SBI Ft. Lauderdale, *Ft. Lauderdale, FL*				
SBI Garden City, *Garden City, NY*				
SBI Houston, *Houston, TX*				
SBI North Loop, *Houston, TX*				
SBI Iselin, *Iselin, NJ*				
SBI Jacksonville, *Jacksonville, FL*				
SBI Landover, *Landover, MD*				
SBI Cleveland, *Middleburg Heights, OH*				
SBI New York, *New York, NY*				
SBI Tampa, *Tampa, FL*				
SBI Philadelphia, *Trevose, PA*				
SBI White Plains, *White Plains, NY*				
Western School of Health and Business Careers (Western)	www.western-school.com	1980	8/03	B, HE, IT
Western, *Pittsburgh, PA*				

Western, *Monroeville, PA*				
INTERNATIONAL DIVISION:				
The International GROUP	www.inseec-france.com	1975(7)	2/03	B, HE, VC
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*		1935	1/07	VC
UNIVERSITY DIVISION:				
American InterContinental University (AIU)	www.aiuniv.edu	1970(8)	1/01	B, IT, VC
AIU Buckhead, *Atlanta, GA*				
AIU Dunwoody, *Atlanta, GA*				
AIU Houston, *Houston, TX*			10/03	
AIU London, *London, England*				
AIU Los Angeles, *Los Angeles, CA*				
AIU Online	www.aiuonline.edu			
AIU South Florida, *Weston, FL*				
Colorado Technical University (CTU)	www.coloradotech.edu	1965(9)	7/03	B, HE, IT, VC
CTU Colorado Springs, *Colorado Springs and Pueblo, CO*(4)				
CTU Denver, *Denver and Denver North, CO*				
CTU North Kansas City, *North Kansas City, MO*				
CTU Online				
CTU Sioux Falls, *Sioux Falls, SD*				
Stonecliffe College Online(10)				

(1) Represents the date on which we acquired the school or individual campus. Start-up campuses that we opened after the initial school acquisition are marked by an *. For start-up campuses, the date opened corresponds to the date on which students first matriculated.

(2) Our schools offer degree and diploma programs within our core curricula of business studies (B), culinary arts (CA), health education (HE), information technology (IT), and visual communication and design technologies (VC). All of our campuses are degree-granting, with the exception of Kitchen Academy; Sanford-Brown College, Collinsville; and all of our Sanford-Brown Institute campuses located outside of Florida, except for the Houston location.

(3) Represents the year during which the first IADT campus in Chicago, IL, was founded.

(4) 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.

(5) Represents the year during which the first Sanford-Brown College campus in Fenton, MO, was founded.

(6) Represents the year during which the first Sanford-Brown Institute campus in New York, NY, was founded.

(7) Represents the year during which the INSEEC Paris campus in Paris, France, was founded.

(8) Represents the year during which the first AIU campus, AIU-Buckhead, in Atlanta, GA, was founded.

(9) Represents the year during which the first CTU campus in Colorado Springs, CO, was founded.

(10) Stonecliffe College Online is an academic division of CTU. As such, we do not include Stonecliffe College Online in our campus count.

The table above excludes schools that have been sold, closed, have ceased admitting new students, or are part of the Sales Plan discussed above. Certain key information regarding each of our discontinued operating divisions, schools, and campuses is summarized in the following table:

DISCONTINUED SCHOOL AND CAMPUS INFORMATION TABLE

Discontinued or Teach-out School and Campus Locations	**Date Acquired /Opened**	**Date Closed /Sold**
Brooks College:		
Brooks College, *Long Beach, CA*	10/94	N/A
Brooks College, *Sunnyvale, CA*	10/02	N/A
Gibbs College:	5/97	N/A
Gibbs College, *Cranston, RI*		
Gibbs College, *Livingston, NJ*		
Gibbs College, *Norwalk and Farmington, CT*		
Gibbs College, *Vienna, VA*		
Gibbs College of Boston, Inc. a private two-year college, *Boston, MA*		
Katharine Gibbs School, *Melville, NY*		
Katharine Gibbs School, *New York, NY*		
Katharine Gibbs School, *Norristown, PA*		
Katharine Gibbs School, *Piscataway, NJ*		
International Academy of Design & Technology (IADT :)		
IADT Fairmont, *Fairmont, WV*	2/97	3/06
IADT Ottawa, *Ottawa, Canada*	9/00	3/05
IADT Montreal, *Montreal, Canada*	6/97	3/05
Lehigh Valley College, *Center Valley, PA*	10/95	N/A
McIntosh College, *Dover, NH*	3/99	N/A
Sanford-Brown Institute Springfield, *Springfield, MA*	7/03	N/A

Seasonality

The operating results of our schools on-ground campuses generally fluctuate on a quarterly basis, primarily as a result of changes in student enrollment. 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. 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 quarter and third quarter (April through September) in support of seasonally high enrollment. We anticipate that these seasonal trends will continue.

The results of operations of AIU Online fluctuate on a quarterly basis, primarily as a result of the platform s academic calendar and, more specifically, the number of instructional days in each quarter. Historically, the number of revenue-generating instructional days has been highest during the first and second quarters (January through June), lower in the third quarter (July through September), and lowest in the fourth quarter (October through December). The operating costs of AIU Online do not fluctuate as significantly on a quarterly basis. We anticipate that these seasonal trends will continue.

The results of operations of CTU Online are not significantly impacted by seasonal trends, as the number of revenue-generating instructional days during each quarter and related operating costs don t fluctuate significantly.

Employees

As of January 31, 2007, we had a total of approximately 16,740 employees, including approximately 2,690 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	660	40				700
Continuing Operations	5,700	110	2,130	2,470	3,340	13,750
Discontinued Operations	690	50	560	350	640	2,290
Total	7,050	200	2,690	2,820	3,980	16,740

Our Katharine Gibbs School in New York, which is part of our discontinued operations, and the United Federation of Teachers Local 2, are parties to a collective bargaining agreement which became effective on July 25, 2006, and expires on July 24, 2009. The Union represents all of the full and part time faculty members and the agreement is the first one between the parties.

INDUSTRY BACKGROUND AND COMPETITION

The postsecondary education industry includes approximately 6,500 institutions that participate in federally-sponsored financial aid programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which we refer to as Title IV Programs. According to the National Center for Education Statistics, approximately 17.7 million students enrolled in degree-granting, postsecondary institutions during the 2004 academic year, and postsecondary education in the United States generated estimated revenues of $339 billion during the 2005-2006 academic year. Postsecondary education institutions are generally grouped into one of three sectors: (1) public, not-for-profit, (2) private, not-for-profit, and (3) private, for-profit. According to NCES and Harris-BMO s 2006 Education Industry Review, the private, for-profit sector includes approximately 2,600 institutions and approximately 1.2 million students participating in Title IV Programs. Harris-BMO estimates that for-profit sector revenues during 2006 were approximately $27.5 billion.

The postsecondary education industry is highly fragmented and competitive. No single institution claims a significant market share. Our schools compete with traditional public and private two-year and four-year colleges and universities, other proprietary institutions, and alternatives to postsecondary education, such as immediate employment and military service. In addition, many private, for-profit postsecondary educators and certain not-for-profit public and private postsecondary educators offer fully-online education platforms that compete directly with the fully-online educational platforms offered by certain of our schools.

Our primary competitors in the publicly-traded, for-profit postsecondary industry are: Apollo Group, Corinthian Colleges, Devry, ITT Educational Services, and Strayer Education. We also compete with an increasing number of private, for-profit postsecondary institutions, including Education Management Corporation.

We believe that our schools compete with other educational institutions principally based upon the quality of educational programs, reputation in the business community, program costs, and graduates ability to find employment. Some public and private institutions are able to charge lower tuition for courses of study similar to courses of study 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. However, tuition at private, not-for-profit institutions is, on average, higher than the average tuition rates of our schools. Additionally, some of our competitors in both the public and private sectors may have substantially greater financial and other resources than we do.

During 2006, some of our schools experienced increased competition for student enrollments in the specific markets that the schools serve. Also, our schools fully-online platforms experienced increased competition for online student enrollments.

BUSINESS AND OPERATING STRATEGY

To compete successfully in today s demanding workplace, individuals require 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 establishing schools of passion in the postsecondary education market and enabling our schools to meet the needs and demands of our students. Our overall business strategy is built on the following four platforms: management of the business, people, compliance, and business expansion.

Management of the Business

Emphasize Customer Service throughout the Student Academic Life-Cycle. We believe that the effective service of our customers is the foundation for our business and operating strategy. Our schools primary customers are our students. We continuously strive to maximize the overall quality of our customer service by focusing on the following key facets of the student s academic life-cycle:

- *Student recruitment and admissions.* The student recruitment and admissions process begins when a student initially shows interest in attending one of our schools. Admissions representatives at our schools work with each prospective student to determine the student s career goals and how our schools can assist him or her in achieving those goals.

- *Enrolled student attending class.* Upon enrolling in a program at one of our schools, students consult with faculty and administrators to establish an academic path that will promote completion of their programs and subsequent employment in their fields of choice. Our financial aid professionals assist students in financing the costs of their programs through the use of available sources of government and private assistance, including scholarship and grant programs offered by or through our schools.

- *Quality of the educational experience*. Our success as a company is dependent on our ability to provide our students with a quality educational experience that allows them to develop the skills and knowledge they need to succeed in their studies. Our faculty, many of whom have years of experience in their fields, understand the need to create a learning environment that encourages students to progress in their studies.

- *Student graduation and employment.* As our students near the completion of their academic programs, career services staff members at our campuses provide students with a variety of career development tools that are designed to help them secure employment or advancement in their field of choice.

To effectively service 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 degree, and non-degree certificate and diploma programs. Our schools focus on the five core curricula that we believe have traditionally provided quality employment opportunities for well-prepared graduates.

Promote Operational and Educational Excellence. Our overall business strategy and growth initiatives are based on achieving operational and educational excellence throughout our organization. We intend to continue to build on our corporate culture, systems, and processes to advance our commitment to operational and educational excellence.

Adhere to our Business Models. Our business models are developed based on our assessment of our strengths, weaknesses, opportunities, and threats and our identification of our competitive advantages. Our

business models are designed to capitalize on our competitive advantages and most effectively meet the needs of our customers. Unique business models are developed for each of our operating divisions in consideration of, among other things, each division s particular student and employer base, pricing strategy, marketing techniques, and product delivery methods. We believe our business models provide us and our operating divisions with a foundation for sustainable, long-term growth.

Focus on Return on Investment. We will continue to evaluate our existing investments to ensure that the returns generated by such investments are consistent with both our expectations and our overall objective of maximizing stockholder value. Furthermore, decisions regarding future investments will be made based on an evaluation of expected returns relative to our required return standards and the expected returns of other investment opportunities.

People

Becoming a Preferred Employer. We strive to be an employer of choice to ensure that we attract and retain highly skilled and motivated individuals at our schools and corporate offices to achieve operational and educational excellence throughout our organization. A significant part of our strategy focuses on providing our employees with formalized career succession plans and implementing new employee training programs.

Compliance

Becoming an Industry Leader in Compliance. We are committed to building and maintaining an industry-leading compliance program. In furtherance of that mission, we have developed rules, policies, and standards to guide the conduct of our employees. Our compliance objectives include the 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 develop tools that enable our corporate and school personnel to proactively monitor their overall compliance environment for indicators of potential compliance issues.

Business Expansion

Systematically Identify and Leverage Opportunities for Growth. We continue to be committed to delivering shareholder value through quality long-term growth that is strategic, targeted, and sustainable. Key components of our growth strategy include the growth of our online campuses, the establishment of new programs at our existing schools, the opening of new start-up or satellite campuses of our existing schools, the expansion of our hybrid learning model, and the pursuit of international expansion opportunities. We believe we can achieve quality, sustainable, long-term revenue and profitability growth by fostering organic growth within our core business and executing a strategic acquisition strategy that focuses on underserved domestic and international markets.

As previously discussed, on January 19, 2007, we received a notice from the United States Department of Education (ED) that it had lifted restrictions imposed in June 2005 that had prevented us from domestic acquisitions of schools and had restricted our ability to open additional domestic campuses.

Growth Strategy

Growth of Fully-Online Education. For students whose lifestyles demand a non-traditional learning environment, our schools fully-online platforms, AIU Online, CTU Online, and Stonecliffe College Online (an academic division of CTU), the financial results and position of which are reported in our University segment, deliver a quality educational experience through 100% Internet-based courses. Our schools online platforms have established a new standard for E-learning by offering online courses that

deliver a well-rounded, comprehensive, multi-media learning experience. Our schools online platforms offer students a virtual campus that replicates the learning environment students would experience if they attended a traditional on-ground campus, an online library that delivers the full resources of an academic library to the student s computer, online financial aid application and processing, and 24-hour technical support.

AIU Online offers 26 master s degree, bachelor s degree and associate s degree programs in the following eight career-oriented disciplines: business, criminal justice, education, healthcare management, information technology, digital design, marketing, and organizational psychology and development. A majority of AIU Online s programs are delivered on an accelerated basis.

CTU Online offers 12 master s degree, bachelor s degree, and professional certificate programs in business administration, criminal justice, and information technology. CTU Online programs are generally less accelerated than AIU Online programs and are structured and scheduled in a manner similar to programs offered at our on-ground campuses.

In the first quarter of 2006, CTU introduced Stonecliffe College Online (an academic division of CTU) that offers 100% online associate degree programs on a non-accelerated, part-time basis. Stonecliffe College Online is our first academic platform that markets online program offerings specifically to students who prefer a slower pace to their online education. Stonecliffe College Online offers associate degree programs in business and criminal justice. We believe that Stonecliffe College Online will attract adult learners who are currently employed and high school graduates who are interested in part-time accelerated and decelerated online educational programs.

Our schools fully-online platforms provide us with a unique 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.

See Note 13 Commitments and Contingencies Accrediting Body Actions, of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of AIU s probationary status. We cannot predict the outcome of SACS future accreditation actions, and an unfavorable outcome could have a material adverse effect on our growth prospects, student population, financial condition, results of operations, and cash flows.

Expansion of Our Hybrid Learning Model. During 2005 and 2006, we made significant advances in the development of our unique hybrid 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 program on-ground and a portion of their academic programs utilizing our universities online platforms virtual campus platform. We believe that our hybrid learning model provides our current and prospective students the program flexibility that they desire.

Certain of our University campuses offered our hybrid learning model during 2005 and 2006 as a complement to those universities existing online platforms. We plan to expand our hybrid learning offerings to other selected schools during 2007.

Organic Growth. Looking ahead, we believe that each of our continuing schools can achieve organic growth in enrollment, revenue, and profitability through successful execution of our business and operating strategies. We believe that the U.S. postsecondary education industry offers significant opportunities for short-term and long-term growth and that many of our schools are strategically positioned to take advantage of those growth opportunities. In addition, we believe that many of the factors impacting the expected growth of the U.S. postsecondary education industry are also present in the international markets where certain of our schools are located.

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 tailored to each of our campuses that highlight the quality of the educational programs offered and the job opportunities available to graduates of these programs.

A key component of our schools organic growth strategy is the establishment of start-up branch campuses of our existing schools. Start-up branch campuses enable our schools to capitalize on new markets or geographic locations that exhibit strong enrollment potential or exhibit the potential to establish a successful operation based on one of our core curricula. To date, our schools have opened 17 start-up branch campuses. We anticipate opening new IADT branch campus locations in San Antonio, Texas and Sacramento, California.

Six of our schools are currently in the start-up stage. Our two new IADT branch campuses locations in San Antonio, Texas and Sacramento, California are now enrolling for spring 2007 starts. Enrollments are expected to begin by the end of 2007 for our LCB Boston and LCB Dallas branch campuses. Our IADT Seattle and IADT Las Vegas branch campuses were opened in 2004 and are now fully operational.

Another significant component of our school s organic growth strategy is the opening of new satellite campuses. 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 allow us to expand the reach of our marketing plans. Satellite campuses also enable our students to attend a portion of their classes at locations that may be more convenient for them than the location of the related main or branch campus. To date, our schools have opened six satellite campuses.

In addition to opening new start-up campuses and satellite campuses, 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.

Strategic Acquisitions. Historically, a significant component of our overall growth has been driven by the completion of strategic acquisitions of postsecondary educational institutions both in the U.S. and in selected international markets. We expect that strategic acquisitions will continue to be an important element of our overall long-term growth strategy. On an ongoing basis, we engage in evaluations of, and discussions with, potential acquisition candidates, including evaluations and discussions relating to acquisitions that may be material in size or scope.

Our objective is to complete selective acquisitions of career-oriented schools with quality educational programs and capable faculty and staff that stand to benefit from our educational focus and marketing and operating strengths. Traditionally, we have targeted institutions for acquisition that we believe have the potential to generate strong financial and academic performance once the institutions have been integrated into our operating structure. Such institutions generally demonstrate many of the following characteristics:

- Schools of Choice possessing leading reputations in career-oriented disciplines within local, regional, or national markets;
- Success demonstrating the ability to attract, retain, graduate, and assist students in obtaining employment in their chosen fields;
- Marketable Curricula offering programs that provide students with relevant training and the skills necessary to obtain attractive jobs and advance in their selected fields;
- Broad Marketability capable of attracting recent high school graduates and adult students from local, national, and international markets; and

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- Attractive Facilities and Geographic Locations providing geographically desirable locations and modern facilities to attract students and enhance the learning experience.

We also investigate any prospective acquisition target for its history of compliance with applicable federal, state, and accrediting body requirements, as we believe that such history is an indication of existing management s integrity, the likelihood of future regulatory costs and compliance issues, and the institution s overall condition from a compliance perspective. A history of significant compliance deficiencies will generally remove an institution from our consideration as an acquisition candidate.

International Expansion. We believe that the international market for our services represents a significant growth opportunity. We believe that international students are increasingly turning to online U.S. educational programs as a means of obtaining a U.S. education without incurring the high travel and living costs and facing the stringent visa requirements associated with studying abroad. Our belief is supported by the fact that the student population of our schools online platforms includes students located in approximately 70 countries. In addition, many U.S. residents live and work in foreign countries and could benefit from the opportunity to continue their education while outside the U.S. We have also continued to pursue opportunities to expand our on-ground presence internationally, both through the growth of our existing schools, such as our INSEEC Group, and through acquisitions of foreign educational institutions, including our January 2007 acquisition of Istituto Marangoni.

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 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 assist them with the completion of the enrollment process. As of January 31, 2007, our schools employed approximately 3,700 admissions representatives servicing our students and potential students.

Our schools primary generator of leads is Internet-based advertising. Our Internet-based advertising strategy consists of co-branded micro-sites, banner advertisements, e-mail campaigns, and branded websites for each of our schools. Each of our schools websites contains extensive information about the school and includes online enrollment capability. We expect this web-based information and enrollment capability to become an increasingly important, effective, and efficient aspect of our admissions activity.

In addition to using Internet-based advertising, our schools utilize a variety of other advertising tools to reach prospective students, including referrals from current, former, and prospective students, television and print media advertisements in local, regional, and, sometimes, national markets, high school presentations made by school admissions representatives in local markets, and direct mailings to prospective students.

The following table represents our estimated percentage of student starts for our continuing operations, generated by leads obtained from various sources during the years ended December 31, 2006 and 2005:

	Year Ended December 31,	
	2006	2005
Internet	68 %	66 %
Referrals	15 %	16 %
Television and print	12 %	12 %
High school presentations	3 %	3 %
Direct mailings	1 %	2 %
Other	1 %	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. Several of our schools also require applicants to meet other admissions requirements, such as obtaining certain minimum scores on assessment examinations.

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 communication 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, and our students skills are further developed through the completion of assignments, projects, and examinations, including those conducted in a laboratory or kitchen setting that allow students to develop practical hands-on experience. Online instructional activities may include web-based chats, threaded discussions, and video presentations.

As the importance of flexibility in students lifestyles becomes more prominent due to changing demands of families and jobs, and geographical considerations, we will continue to focus our program offerings and delivery methods on what best suits our students while maintaining a quality educational experience. We will continue to offer programs that impassion prospective students in a varied and flexible fashion either on-ground or online. We believe that our program offerings are best delivered in a way that seeks to maximize flexibility for our students.

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.

Student retention is a responsibility of each of the faculty members and administrators at our schools. To minimize the number of students who withdraw from our schools, faculty members and administrators strive to establish professional relationships with students and treat students as valued customers. Each school devotes significant resources to advising students regarding academic and financial matters, part-

time employment, and other factors that may affect a student s success and ability to remain in school. In addition, our corporate and divisional support staff continuously monitor the retention rates of each of our campuses and provide feedback to local campus administrators. This corporate and divisional oversight also allows us to better identify regional and national trends that may be both positively and negatively impacting retention rates at our schools and enables us to develop best practices for improving student retention throughout our network of schools.

Our schools consolidated retention rates for the years ended December 31, 2006, 2005, and 2004, was approximately 66.5%, 63.8%, and 65.9%, respectively. These rates were determined in accordance with the standards set forth by the Accrediting Council for Independent Colleges and Schools (ACICS), which determines annual retention rates by dividing the total number of student withdrawals or dismissals during the year by the sum of (a) beginning student population, (b) new student starts, and (c) student re-enters, and subtracting the resulting quotient from 1.

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. To emphasize the importance of our students graduation and employment, we designated 2006 as the Year of the Graduate. We believe that 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 and, we believe, a key factor that differentiates us from our competitors.

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. Annually, our campus career services departments host two national online job fairs and multiple on-campus job fairs to provide opportunities for current students and alumni to connect with local, regional, and national employers. Career services staff members also play a key role in marketing campus curriculum to the local and regional business community, which in turn generates job opportunities for our graduates. Career services staff members assist students in identifying part-time employment, including participation in internship programs, while our students are pursuing 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 January 31, 2007, we employed approximately 255 individuals in the career services departments of our campuses, aiding current students in obtaining part-time employment and assisting graduating students in identifying full-time, career-based employment opportunities. In addition to our career services personnel, we have many externship coordinators that help students obtain externships that prepare them to effectively compete in the employment market.

Curriculum and Faculty Development

We believe that the quality and relevance of our schools curriculum is a key component of the success of our overall business strategy. 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 our

schools serve. Each of our individual campuses has one or more program advisory boards composed of local and regional community members who are engaged in businesses directly related to that campus educational offerings. These program advisory boards provide valuable input to campus faculty and administrators, allowing our campuses to maintain flexible, adaptable program curricula while providing our students with the training and skills that we believe employers in the local and regional business communities require.

Our faculty members, many of whom are industry professionals, maintain regular contact with employers. Our schools hire a significant number of part-time faculty members who hold positions in relevant business and industry because, in many circumstances, specialized knowledge is required to teach many of the courses included in our schools curricula and provide students with current industry-specific training. Unlike instructors at many traditional colleges and universities, instructors at our schools are not awarded tenure and are regularly evaluated based on, in part, the results of student evaluations.

Faculty observations and evaluations are conducted by each of our campuses to provide our instructors with input regarding their classroom performance. This input includes constructive suggestions for improvement and recognition of successful techniques used by the educator. We believe that these observations and evaluations help develop professional, competent instructors, who are able to effectively use a variety of tools and techniques to educate and guide our students.

We recognize the importance of faculty development to the overall success of our students and our schools. We believe that ongoing faculty development enhances the overall success of our students and enhances the credibility and integrity of our schools. CEC, in partnership with our schools, designs and implements faculty development activities to assist our schools faculty members in gaining knowledge in the theory and techniques of instruction, student support, and administrative procedures. Our schools also develop and implement tools to enhance faculty knowledge of teaching methodologies and subject matter. In addition, our faculty members engage in professional development through continuing education, attending conferences, joining and participating in professional organizations, and developing related work experience. While many of these activities are required by our accreditors, we believe that our faculty s participation is in the best interest of our students.

School Administration

Our regionally-accredited schools are each overseen by a governing board that includes independent representation reflecting the public interest. These governing boards have broad and significant influence upon the schools programs and operations, play an active role in policy-making, and ensure that the financial resources of their schools are adequate 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 and CTU 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. Corporate management works closely with each of the governing boards to ensure compatibility among the governing board s objectives, the school s educational mission, and our overall business and operating strategy.

Our regionally-accredited AIU and CTU schools are each managed by a team of centralized administrators, headed by a chief executive officer, that is responsible for providing effective educational leadership and administering each of the schools in accordance with each school s respective policies. In

contrast, management of each of our other nationally or regionally-accredited schools is the primary responsibility of a campus president and the president s team of managers.

Once our overall business strategy has been established, corporate management partners with campus administrators, or, in the case of our AIU and CTU schools, with centralized administrators, to establish campus-specific objectives that are tailored to meet the unique strengths and challenges of each of our campuses and the campuses particular regulatory and educational environments. Corporate management then provides campus and centralized administrators with the necessary level of operational autonomy so that they may maintain a flexible operating environment that allows our campuses to adapt to the continuously changing marketplace.

Each of our campuses has six primary operating departments: education, admissions, financial aid, career services, compliance, and accounting. Campus management is responsible for the day-to-day operations of the campus and, in partnership with its corporate counterparts in these functional areas, for implementing educational and financial strategies.

Certain functions related to the operation of our campuses, including information technology and certain accounting, compliance, internal audit, and financial aid processing functions, have been or are in the process of being centralized at our corporate headquarters. We believe that efficiencies, cost reductions, and functional process improvements are gained by centralizing these functions.

As previously discussed, each of our campuses has one or more program advisory boards, which are composed of local and regional community members who are often engaged in businesses directly related to that campus educational offerings. The primary function of the program advisory boards is to provide our campuses with insight into the local and regional business communities needs to help our campuses faculty and administrators maintain flexible, adaptable program curricula while providing our students with the training and skills that such employers require. Program advisory boards at our campuses help to ensure consistency between academic program curricula and current workplace demands and strengthen relationships with prospective employers of our schools graduates. Program advisory boards do not have decision-making authority for our campuses. Instead, program advisory boards act solely in an advisory capacity.

STUDENT FINANCIAL AID AND THE REGULATION OF THE POSTSECONDARY EDUCATION INDUSTRY

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 Programs is awarded on the basis of financial need, which is generally defined under the HEA as the difference between the cost of 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 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. If a student or parent defaults on a FFEL program loan, repayment is guaranteed by a federally recognized guaranty agency, which is then reimbursed by the ED. 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. The two primary types of loans obtained by students at our schools under the FFEL program are Stafford loans and PLUS loans for parents.

Stafford loans, which may either be subsidized or unsubsidized, are loans made directly to our students by financial institutions that participate in the FFEL program. 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 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 for a Stafford loan. The ED has established maximum annual borrowing limits with respect to Stafford loans, and these annual limits are generally less than the tuition costs at our U.S. schools.

A PLUS loan is a loan made directly by financial institutions to the parents of our dependent students. Parents who have an acceptable credit history can borrow using a PLUS loan to pay the educational expenses of a child who is a dependent student enrolled at least half-time at our U.S. schools. The amount of a 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) program and the Federal Supplemental Educational Opportunity Grant (FSEOG) program. The ED makes Pell grants up to a maximum amount of $4,050 per award year to students who demonstrate financial need. This amount will increase to $4,310 per award year effective with the 2007-2008 award year, which commences on July 1, 2007. 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 100% of the cost of part-time employment of eligible students.

*Federal Perkins Loan (Perkins) 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 program.

Academic Competitiveness Grant (ACG) The Academic Competitiveness Grant (ACG) is available to students who have successfully completed a rigorous High School program (as defined by the Secretary of Education.) The ACG 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 Federal Pell Grant. Second year students must also have a cumulative grad point average of at least 3.0 on a 4.0 scale.

The National Science and Mathematics Access to Retain Talent Grant (SMART). SMART Grants 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 Federal 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.

ED Regulation of Federal Student Financial Aid Programs

To participate in the 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.

As previously disclosed, the ED notified us in June 2005 that it was reviewing our previously announced restated consolidated financial statements and our annual compliance audit opinions for the years 2000 through 2003. At the same time, the ED also advised us that it was evaluating pending program reviews that have taken place at certain of our schools. The ED indicated that until these matters were addressed to its satisfaction, it would not approve any new applications by us for pre-acquisition review or change of ownership. The ED further advised us that during this period, it would not approve applications for any additional branch campuses. On January 22, 2007, we received a notice from the ED that it had lifted restrictions imposed in June 2005 that had prevented us from domestic acquisitions of schools and had restricted our ability to open additional domestic campuses. The ED previously approved our applications for participation in Title IV Programs for new IADT branch campus locations in San Antonio, Texas and Sacramento, California. These campuses are currently scheduled to open in late spring of 2007.

See Note 13 Commitments and Contingencies Federal Regulatory Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of this matter.

State Authorization for U.S. Institutions. 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.

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 13 Commitments and Contingencies State Regulatory Actions, of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of state regulatory matters currently affecting us and our schools.

Accreditation for U.S. Institutions. Accrediting agencies also are responsible for overseeing educational institutions, and, under the HEA, continued approval by an accrediting agency recognized by the ED is necessary for an institution to maintain eligibility to participate in Title IV Programs. Accreditation is a non-governmental process through which an institution submits to a qualitative review by an organization of peer institutions. Accrediting agencies primarily examine the academic quality of the institution s instructional programs, and a grant of accreditation is generally viewed as confirmation 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 sufficient resources to perform its educational mission. Accrediting agencies must adopt specific standards in connection with their review of postsecondary educational institutions to be recognized by the ED.

Accrediting agency oversight may occur at several levels. An accrediting agency may place an institution on Reporting status to monitor one or more specified areas of performance. An institution placed on Reporting status is required to report periodically to its accrediting agency on its performance in the specified areas and to continue to submit such periodic reports for a specified period, which is generally one year, after which the institution is re-evaluated. An accrediting agency may place an institution on Warning status if it determines that the institution may be in danger of failing to comply with the accreditation requirement, or it may place an institution on Probation status if it determines that an institution appears to be deficient with regard to such requirement. In either instance, the institution is given a prescribed period to demonstrate that it has rectified the deficiency, which period may subsume two or more years, except in the case of SACS Probation, which in accordance with the SACS rules, cannot be imposed for more than two consecutive years, at the end of which SACS must either lift the Probation or remove the institution from membership. When accrediting agencies determine that a serious deficiency may exist, they may direct an institution to Show Cause as to why its accreditation should not be terminated. An institution under Show Cause is required to satisfy its accrediting agency within a prescribed period, generally less than one year, that it has satisfactorily resolved the deficiency. See Note 13 Commitments and Contingencies Accrediting Body Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of accrediting agency matters currently affecting us and our schools.

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; Dubai, United Arab Emirates; Online)*(3)	SACS	2012 (4)
Briarcliffe College		
Bethpage, NY *(Patchogue, NY)*	MSA	2011
Brooks College		
Long Beach, CA *(Sunnyvale, CA)*	ACCJC	2010
Brooks Institute of Photography		
Santa Barbara, CA	ACICS	2010
Brown College		
Mendota Heights, MN	ACCSCT	2007
California Culinary Academy		
San Francisco, CA	ACCSCT	2010
California School of Culinary Arts		
Pasadena, CA *(Kitchen Academy, Hollywood, CA)*	ACICS	2012
Collins College		
Tempe, 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	2007
Gibbs College		
Cranston, RI	ACICS	2009
Gibbs College		
Livingston, NJ *(Katharine Gibbs School, Piscataway, NJ)*	ACICS	2007
Gibbs College		
Norwalk, CT	ACICS	2011
Gibbs College		
Vienna, VA	ACICS	2010
Gibbs College of Boston, Inc, a private two-year college		
Boston, MA	ACICS	2008
Harrington College of Design		
Chicago, IL	ACICS (primary)	2008
	NASAD (secondary)	2007

International Academy of Design & Technology		
Chicago, IL *(Troy, MI; Schaumburg, IL)*	ACICS	2008
International Academy of Design & Technology		
Nashville, TN *(Pittsburgh, PA)*	ACICS	2007
International Academy of Design & Technology		
Tampa, FL *(Orlando, FL; Henderson, NV; Seattle, WA; Orlando Culinary Academy, Orlando, FL)*	ACICS	2010
Katharine Gibbs School		
Melville, NY	ACICS	2009
Katharine Gibbs School		
New York, NY *(Norristown, PA)*	ACICS	2008
Lehigh Valley College		
Center Valley, PA	ACICS	2009
McIntosh College		
Dover, NH	NEASC	2008
Missouri College		
St. Louis, MO	ACCSCT	2011
Pennsylvania Culinary Institute		
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts Miami, Miramar, FL)*	ACCSCT	2010 (5)
Sanford-Brown College		
Fenton, MO *(Collinsvile, IL; Hazelwood, MO; St. Peters, MO, West Allis, WI)*	ACICS	2011
Sanford-Brown Institute		
Atlanta, GA *(Houston, TX; Houston/North Loop, TX; Landover, MD; Ft. Lauderdale, FL; Middleburg Heights, OH; New York, NY; Trevose, PA)*	ACICS	2008
Sanford-Brown Institute		
Dallas, TX *(Garden City, NY)*	ACICS	2008
Sanford-Brown Institute		
Jacksonville, FL *(Iselin, NJ; Tampa, FL)*	ACICS	2007
Sanford-Brown Institute		
White Plains, NY	ABHES (primary)	2007
	ACICS (secondary)	2007
Scottsdale Culinary Institute		
Scottsdale, AZ *(Le Cordon Bleu College of Culinary Arts Las Vegas, Las Vegas, NV)*	ACCSCT	2010
Texas Culinary Academy		
Austin, TX	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	2007 (6)
Western School of Health and Business Careers		
Pittsburgh, PA *(Monroeville, PA)*	ACCSCT	2009

(1) Certain of our schools are accredited by more than one accrediting body. In these cases, the accreditors are reported to the ED as either primary or secondary for federal funding eligibility purposes. Below is a key to the accreditation abbreviations used in the table:

a. ABHES Accrediting Bureau of Health Education Schools

b. ACCSCT Accrediting Commission of Career Schools and Colleges of Technology

c. ACICS Accrediting Council for Independent Colleges and Schools

d. MSA Middle States Association of Colleges and Schools, Commission on Higher Education

e. NASAD National Association of Schools of Art and Design

f. NEASC New England Association of Schools and Colleges, Commission on Technical and Career Institutions

g. NCA North Central Association of Colleges and Schools, Higher Learning Commission

h. SACS Southern Association of Colleges and Schools, Commission on Colleges

i. ACCJC Western Association of Schools and Colleges, Accrediting Commission for Community and Junior Colleges

(2) Status as of February 23, 2007.

(3) We have a profit sharing agreement with, but do not own any portion of, American University Dubai, which is a branch campus of our AIU university.

(4) In December 2006, SACS notified AIU that SACS has extended AIU s probationary status for another year. See Note 13 Commitments and Contingencies Accrediting Body Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of this matter.

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

(6) Accreditation for the Tucker branch campus expires in 2010. Accreditation for the Mendota Heights branch campus expires in 2007.

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**
Accrediting Council for Occupational Therapy Education	Sanford-Brown College, Hazelwood	Occupational therapy assistant program
American Society of Health Systems Pharmacists	Western School of Health and Business Careers, Monroeville	Pharmacy assistant programs
Accrediting Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Engineering programs
Accrediting Bureau of Health Education Schools	Colorado Technical University, North Kansas City; Sanford-Brown College, Collinsville and Hazelwood; Sanford-Brown Institute, Iselin, Jacksonville, Atlanta, Ft. Lauderdale, Houston, Houston Northloop, Landover, Middleburg Heights, New York, Trevose, Dallas, Garden City, Tampa; Western School of Health and Business Careers, Pittsburgh and Monroeville	Medical assistant programs
Accrediting Bureau of Health Education Schools	Sanford-Brown Institute, Dallas, Iselin, Jacksonville, Ft. Lauderdale, Houston, Houston/North Loop, and Tampa	Surgical technology programs
American Culinary Federation Education Institute	California Culinary Academy, The Cooking & Hospitality Institute of Chicago, Le Cordon Bleu of Culinary Arts Atlanta, Le Cordon Bleu College of Culinary Arts Minneapolis/St. Paul, Orlando Culinary Academy, Pennsylvania Culinary Institute, Scottsdale Culinary Institute, Texas Culinary, Western Culinary Institute	Culinary programs
American Culinary Federation Education Institute	Scottsdale Culinary Institute	Pastry and baking program
American Dental Association Commission on Dental Accreditation	Missouri College	Dental assisting programs
American Veterinary Medical Association	Western School of Health and Business Careers, Pittsburgh	Veterinary technology programs

CAAHEP-Accreditation Review Committee on Education in Surgical Technology	Colorado Technical University, North Kansas City; Sanford-Brown Institute, Houston, Iselin, Jacksonville, Ft. Lauderdale, and Tampa; Western School of Health and Business Careers, Monroeville	Surgical technology programs
CAAHEP-Curriculum Review Board of the American Association of Medical Assistants Endowment	Colorado Technical University, Sioux Falls	Medical assistant programs
CAAHEP-Joint Review Committee on Education in Diagnostic Medical Sonography	Sanford-Brown Institute, Dallas, Atlanta Houston, Iselin, and Middleburg Heights; Western School of Health and Business Careers, Pittsburgh	Diagnostic medical sonography programs
Council for Interior Design Accreditation	American InterContinetal University, Atlanta/Buckhead and Los Angeles; Brooks College, Long Beach; Harrington College of Design; IADT Chicago, Tampa, and Toronto	Interior design programs
Joint Review Commission on Education in Radiologic Technology	Colorado Technical University, North Kansas City; Sanford-Brown College, Fenton; Western School of Health and Business Careers, Pittsburgh	Radiologic technology programs
Committee on Accreditation for Respiratory Care	Sanford-Brown College Fenton; Western School of Health and Business Careers, Monroeville	Respiratory therapy programs

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. In December 2005, Congress temporarily extended the provisions of the HEA, pending completion of the reauthorization process or further extensions of the HEA. In February 2006, as part of the Deficit Reduction Act of 2005, Congress made certain changes in the HEA that had been reflected in the HEA reauthorization bills. The changes enacted eliminate certain restrictions on online programs, increase, beginning in 2007, student loan limits for the first two academic years of a student s program of study, and make other technical changes. In September 2006, Congress temporarily extended the provisions of the HEA, pending completion of the reauthorization process or further extensions of the HEA.

It is possible that Congress will not make further changes to the HEA during 2007 and, instead, extend current law, including the changes made as part of the Deficit Reduction Act of 2005. If Congress does address reauthorization, there may be certain further legislative changes. However, at this time, we cannot determine the scope, content, or effect of such changes. Any action by the U.S. Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could have a material adverse effect on our student population, financial condition, results of operations, and cash flows. Legislative action may also require us to modify our practices for our schools to comply fully with applicable requirements. The adoption of any such modifications could result

in additional administrative costs, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

Student Loan Default Rates. An institution may lose eligibility to participate in some or all Title IV Programs if the rates at which former students default on the repayment of their federally-guaranteed or federally-funded student loans exceed specified percentages. An institution s cohort default rate under the FFEL program 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.

An institution whose cohort default rate equals or exceeds 25 percent for three consecutive years will no longer be eligible to participate in the FFEL or Pell 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 under the FFEL program for any federal fiscal year exceeds 40 percent will no longer be eligible to participate in the FFEL program 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 under the FFEL program equals or exceeds 25 percent for any one of the three most recent federal fiscal years, or whose cohort default rate under the Perkins loan program exceeds 15 percent 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 persistence 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 tolerable 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.

As of December 31, 2006, four of our schools had student borrowers who entered repayment in the 2003-2004 award year, the most recent year for which we have calculated and reported Perkins loan default rates to the ED. The Perkins loan cohort default rates for these four schools ranged from 11.43% to 66.67%. One of our schools, Brown College, currently participates in Title IV Programs under provisional certification due to the ED s Perkins loan default rate criteria. CTU is our only school that continues to participate in the Federal Perkins Loan program and it had a Perkins loan cohort default rate of 11.43% for students who were scheduled to begin repayment in the 2003-2004 federal award year.

All of our domestic schools, with the exception of Kitchen Academy, participate in the FFEL program, and none of them had a FFEL cohort default rate of 25 percent or greater during any of the last three federal fiscal years. The following table sets forth the FFEL cohort default rates for our schools for federal fiscal years 2004, 2003, and 2002, the most recent years for which the ED has published such rates:

COHORT DEFAULT RATE TABLE

School, Main Campus Location	**FFEL Cohort Default Rate**		
(Branch campuses are in parentheses)	**2004**	**2003**	**2002**
American InterContinental University			
Atlanta/Buckhead, GA *(Atlanta/Dunwoody, GA; Weston, FL; Los Angeles, CA; Houston, TX; London, England; Online)*	9.2 %	9.2 %	8.3 %
Briarcliffe College			
Bethpage, NY *(Patchogue, NY)*	9.1 %	7.7 %	9.1 %
Brooks College			
Long Beach, CA *(Sunnyvale, CA)*	13.1 %	7.2 %	5.7 %
Brooks Institute of Photography			
Santa Barbara, CA	4.9 %	2.9 %	4.3 %
Brown College			
Mendota Heights, MN	8.0 %	8.0 %	6.0 %
California Culinary Academy			
San Francisco, CA	5.3 %	8.2 %	10.4 %
California School of Culinary Arts			
Pasadena, CA	6.4 %	4.2 %	2.3 %
Collins College			
Tempe, AZ	9.2 %	8.1 %	11.1 %
Colorado Technical University			
Colorado Springs, CO *(Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online)*	7.1 %	4.8 %	2.9 %
The Cooking & Hospitality Institute of Chicago			
Chicago, IL	11.1 %	9.2 %	16.7 %
Gibbs College			
Boston, MA	18.4 %	16.2 %	14.7 %
Cranston, RI	10.1 %	7.7 %	8.6 %
Norwalk, CT	17.4 %	9.0 %	10.1 %
Livingston, NJ *(Piscataway, NJ)*	23.8 %	15.8 %	15.6 %
Vienna, VA	18.2 %	11.2 %	9.7 %
Harrington College of Design			
Chicago, IL	4.4 %	2.9 %	7.4 %
International Academy of Design & Technology			
Chicago, IL *(Troy, MI; Schaumburg, IL)*	20.0 %	21.9 %	24.2 %
Nashville, TN *(Pittsburgh, PA)*	19.2 %	16.7 %	17.2 %
Tampa, FL *(Orlando, FL; Henderson, NV; Seattle, WA; Orlando Culinary Academy, Orlando, FL)*	10.3 %	7.6 %	4.5 %

The Katharine Gibbs Schools			
Melville, NY	15.2 %	11.3 %	9.4 %
New York, NY *(Norristown, PA)*	16.1 %	19.4 %	18.3 %
Lehigh Valley College			
Center Valley, PA	14.8 %	7.8 %	8.1 %
McIntosh College			
Dover, NH	14.4 %	12.5 %	8.3 %
Missouri College			
St. Louis, MO	7.9 %	3.8 %	6.0 %
Pennsylvania Culinary Institute			
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts Miami, Miramar, FL)*	6.8 %	6.0 %	11.2 %
Sanford-Brown College			
Fenton, MO *(Collinsville, IL; Hazelwood, MO; St. Peters, MO, West Allis, WI)*	9.9 %	5.9 %	7.4 %
Sanford-Brown Institute			
Atlanta, GA *(Houston, TX; Houston/North Loop, TX; Landover, MD; Ft. Lauderdale, FL; Middleburg Heights, OH; New York, NY; Trevose, PA)*	17.8 %	9.9 %	7.0 %
Dallas, TX *(Garden City, NY)*	18.6 %	9.5 %	7.8 %
Jacksonville, FL *(Iselin, NJ; Tampa, FL)*	17.0 %	9.4 %	4.7 %
White Plains, NY	20.1 %	9.7 %	6.9 %
Scottsdale Culinary Institute			
Scottsdale, AZ *(Le Cordon Bleu College of Culinary Arts Las Vegas, Las Vegas, NV)*	4.7 %	4.7 %	4.8 %
Texas Culinary Academy			
Austin, TX	11.0 %	9.0 %	9.5 %
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)*	8.9 %	5.4 %	2.2 %
Western School of Health and Business Careers			
Pittsburgh, PA *(Monroeville, PA)*	8.8 %	6.9 %	9.3 %

Financial Responsibility Standards. To participate in Title IV Programs, an institution must satisfy specific measures of financial responsibility 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 following a change of control of an institution. With respect to our schools, it has been the ED s practice to measure financial responsibility on the basis of the financial statements of both our individual schools and CEC on a consolidated basis.

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 1.5 based on the institution s annual financial statements. The ED calculates an institution s composite score, which may range from -1.0 to 3.0, 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 1.0 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 percent 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 percent of Title IV Program funds received by the institution during its prior fiscal year and agreeing to certain additional requirements for the 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 are 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. Our consolidated composite score as of and for the year ended December 31, 2006, was 3.0, relative to a maximum score of 3.0. If, however, we or any of our schools fail to satisfy the ED s financial responsibility standards in the future, our financial condition, results of operations, and cash flows could be materially adversely affected.

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 have historically been required to return such funds within 30 days of the date the institution determines that the student has withdrawn, but, based upon changes to the HEA in 2006, the deadline to return such funds has been changed to 45 days for any student who withdrew from school on or after July 1, 2006. 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 related to timeliness at 14 of our schools, we had posted a total of $3.9 million in letters of credit in favor of the ED as of December 31, 2006.

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 recertified 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 U.S. schools has undergone a certification review under our ownership and has been certified to participate in Title IV Programs on a provisional basis. Currently, six of our schools participate 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, such 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.

The ED notified us in a January 19, 2007, letter that it had lifted restrictions it imposed in June 2005 that had prevented us from domestic acquisitions of schools and had restricted our ability to open additional domestic campuses. This notice was preceded by the ED s approval of applications for IADT campus locations in San Antonio, Texas and Sacramento, California to participate in Title IV Programs.

90-10 Rule. Under a provision of the HEA commonly referred to as the 90-10 Rule, a proprietary institution would no longer be eligible to participate in Title IV Programs if, on a cash accounting basis, it derived more than 90 percent of its revenue, as defined pursuant to applicable ED regulations, for any fiscal year from Title IV Programs. An institution that violates this

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90-10 Rule becomes ineligible to participate in Title IV Programs as of the first day of the fiscal year following the fiscal year for which it is in violation of the rule and is unable to apply to regain its eligibility until the next fiscal year. 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.

During the years ended December 31, 2006, 2005, and 2004, our schools from continuing operations and discontinued operations that participated in Title IV Programs received, in the aggregate, approximately 62%, 61%, and 58%, respectively, of total cash-basis revenue from Title IV Programs. We monitor compliance with this requirement to minimize the risk that any of our schools would derive more than the maximum allowable percentage of its cash-basis revenue from Title IV Programs for any fiscal year. If one of our schools appeared likely to approach the maximum allowable percentage threshold, we would consider making changes in student funding and financing to ensure compliance with the rule. If any of our schools were to lose eligibility to participate in Title IV Programs, and we were not able to arrange for adequate alternative financing sources for the students attending such school, we would most likely have to close the school, which could have a material adverse effect on our student population, financial condition, results of operations, and cash flows.

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 institution, 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. We believe that our current compensation plans are in compliance with the provisions of the HEA, although such compensation plans have not been specifically reviewed or approved by the ED.

Restrictions on Distance Education Programs. Under prior law, an institution participating in Title IV Programs was required to offer no more than half of its courses over telecommunication networks, including the Internet, or by correspondence, and an institution that offered more than half of its courses over telecommunication networks or by correspondence ceased to be eligible to participate in Title IV Programs (the 50% Rule). Effective July 1, 2006, the Deficit Reduction Act of 2005 eliminated the 50% Rule for those institutions that offer distance learning via telecommunications which are accredited by an accrediting agency that has the evaluation of distance learning education programs within the scope of recognition granted by the ED Secretary.

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.

As of February 26, 2007, 10 of our schools remain on provisional certification with the ED. Six of our schools are on provisional certification because the initial period of their provisional certification following a change in control has not expired, one schools is on provisional certification due to late refunds of Title IV Program funds, one school is on provisional certification due to its Federal Perkins Loan default rate, and two schools are on provisional certification due to ongoing ED program reviews.

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 other state regulatory agencies, accrediting agencies, present and former students and employees, shareholders, and other third parties 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. Any penalties or restrictions imposed on us or our schools could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Even if we satisfactorily resolve the issues raised by any such claims or actions, we may have to expend significant financial resources and divert management attention from our ongoing business operations to address and defend those claims or actions, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Adverse publicity regarding such claims and actions could also negatively affect our business. We have several such matters pending against us or one or more of our schools. See Note 13 Commitments and Contingencies Federal, State, and Accrediting Body Regulatory Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of certain of these matters.

Corporate Compliance Structure. We have developed a corporate compliance department to monitor our schools compliance with the extensive regulations described above. Our corporate compliance department also provides assistance to our schools in preparing for and responding to accreditation visits, program reviews, financial aid audits, state licensure requirements, and student complaints and reviewing advertising and school catalogs.

Our corporate compliance department is directed by our Chief Compliance Officer, who reports independently to the Compliance Committee of our Board of Directors, and includes six vice presidents of compliance, each of whom reports independently to the Chief Compliance Officer. The Chief Compliance Officer and the vice presidents of compliance are responsible for verifying that:

- our schools and their employees are in compliance with the rules and regulations of federal and state regulatory agencies and accrediting bodies;

- our policies and procedures are being followed; and
- behavior at our schools conforms to our Code of Business Conduct and Code of Ethics.

We have realigned our school compliance structure such that a director of compliance (DOC), who reports independently to a specified corporate vice president of compliance, has been assigned to each of our North American campuses. Previously, our DOCs reported directly to school presidents. This change was instituted to ensure the independence of the DOCs in addressing compliance-related issues that affect our schools. DOCs remain active and collaborative members of their campuses senior management teams.

Certain of our DOCs serve on a DOC Advisory Council that works closely with our Chief Compliance Officer and our vice presidents of compliance to identify best practices, share knowledge regarding how new compliance policies and procedures might work at the campus level, serve as mentors for newly-hired DOCs, and function as senior instructors for DOC training.

We have also adopted a Code of Ethics that applies to our executive officers and senior financial officers and a Code of Business Conduct and Ethics that applies to all of our directors and employees. These codes provide guidance with respect to our expectations that all of our employees will conduct business in a way that will merit the continued trust and confidence of the public. Both of these documents are available on our website at *www.careered.com* under the caption Investor Relations.

During 2005, we introduced a mandatory ethics training program for directors and all full-time and part-time employees at our schools and corporate offices. Our ethics training program includes a live presentation from an industry expert to our Board of Directors and our corporate and school executive managers, and a mandatory interactive online training program for all other employees. As of January 31, 2007, approximately 99% of all employees had completed the mandatory interactive online training program.

International Regulations

Our schools that operate in France and the foreign campuses of our U.S schools that operate in Canada and the United Kingdom are subject to local government regulations. We believe that each of our international locations currently holds all necessary domestic authority to operate within its respective jurisdiction, and campus administrators work closely with local regulators to ensure compliance with domestic regulations. Additionally, our AIU campus in the United Kingdom and the American University in Dubai (AU Dubai) in the United Arab Emirates are accredited by a U.S. regional accrediting association, SACS, as branches 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 co-governed by the French Ministry of Health and by 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, 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, is currently undergoing reorganization by the French Ministry, and the institutions affected by the reorganization are currently 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 six schools have been granted Level III approval. 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, 2006.

Canada. *Students at our Canadian campus of IADT, which is located in Toronto, Ontario, may receive financial aid under the Canada Student Loans Program if they satisfy the Canada Student Loan Program s eligibility requirements. In addition, students at our Canadian campus of IADT may receive financial aid under the Ontario Student Assistance Program if they satisfy the Ontario Student Assistance Program s eligibility requirements. Further, if their province of residence is not Ontario, students at our Canadian campus of IADT may receive financial aid under a program of government-sponsored financial aid available through the government of their province of residence. Our Canadian campus of IADT must meet eligibility standards to administer these programs and must comply with extensive statutes, rules, regulations, and requirements. We believe our Canadian campus of IADT currently holds all necessary registrations, approvals, and permits and meets all eligibility requirements to administer these government-sponsored financial aid programs.*

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.

United Arab Emirates. AU Dubai, a branch campus of AIU, as defined by the ED, is authorized to grant academic credentials by both the Nonpublic Postsecondary Education Commission of the State of Georgia and the Education Licensure Commission of the District of Columbia. AU Dubai does not participate in Title IV Programs. AU Dubai has been granted domestic programmatic accreditation by the United Arab Emirates Ministry of Higher Education and has authority to operate through a grant from the Emir (the head of state) of Dubai. AU Dubai received a new five-year, renewable license to operate the campus from the United Arab Emirates Ministry of Higher Education in December 2004. This license is also known as a trade license in the United Arab Emirates.

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.

ALTERNATIVE STUDENT FINANCIAL AID SOURCES

As the financial aid available to our students under Title IV Programs and state programs is generally significantly less than the tuition costs at our U.S. schools and our students financial needs, 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.

The fees and interest rates on these private loans are generally greater than the loans made under the FFEL program due to the lack of a government guarantee on these private loans. The fees and interest rates on these private loans will also vary depending on the credit history of the student or co-borrower, with fees and interest rates being lower for students and co-borrowers with better credit histories. The market for private student loans has shown significant growth over the past three years as the demand for private loans continues to increase due to increases in the cost of education and static funding levels under the FFEL program. The number of lenders offering private loans has also increased with this demand, and our students have several choices of private loan programs available to them.

The majority of our students, individually or with a co-borrower, are able to obtain non-recourse private loans from financial institutions. A financial institution providing a non-recourse loan assumes 100 percent of the credit risk on the loan. To receive a non-recourse loan, the student, or the student and a co-borrower, must meet the credit criteria established by the financial institution for these loans. Each financial institution has established its respective credit criteria and loan limits. Students and co-borrowers can generally borrow an amount equal to the student s cost of attendance less all other financial aid received. The majority of non-recourse private loans received by our students at our U.S. schools during the years ended December 31, 2006, 2005, and 2004, were provided by Sallie Mae.

Effective March 1, 2006, Sallie Mae required our students that are not able to obtain a qualified co-borrower to meet a higher minimum credit score to receive a non-recourse loan. No changes were made to the required minimum credit score for students who are able to obtain a qualified co-borrower for a non-recourse loan. This change in minimum credit score resulted in students who would have been eligible to obtain a non-recourse loan without a qualified co-borrower prior to March 1, 2006, to no longer be eligible to do so, and instead, such students were only be eligible for a Sallie Mae recourse loan, as discussed below.

In October 2006, we negotiated an amendment to our loan agreement that reduced the minimum credit score required for our students to qualify for a non-recourse loan under Sallie Mae s non-recourse loan program. The amendment also reduced loan fees and interest rates charged to our students for both non-recourse and recourse loans funded by Sallie Mae. Under the amendment, we will pay Sallie Mae a discount fee equal to 25% of all recourse loans funded under the agreement after March 1, 2007. Pursuant to the amendment, we will no longer be required to deposit a portion of loans funded under the agreement into a Sallie Mae reserve account. In addition, we will no longer be required to repurchase any defaulted loans funded under the agreement after March 1, 2007.

We have also developed several recourse loan programs with financial institutions for students with low credit scores who do not qualify for non-recourse loans. These recourse loan programs require that we allow the financial institution providing the recourse loans to retain an agreed-upon portion of the loans funded as a reserve against future defaults on these loans. We are required to purchase any defaulted recourse loans up to the amount on deposit in the reserve account.

The loan amounts available to our students under these recourse loan programs are generally less than the amounts available under non-recourse loan programs. We believe that providing recourse loans to our students utilizing these lower loan amounts allows them to receive the financing needed to attend our schools while controlling the amount of recourse fees incurred by our schools in connection with these loans. Our cash receipts from these recourse loan programs over the last three years have not exceeded 3% of total cash tuition payments received in any one year, and we do not expect the relative percentage of cash receipts from recourse loan programs to increase significantly in the future. See Note 10 Recourse Loan Agreements of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of our recourse loan agreements.

If there were significant changes in the credit criteria established by the financial institutions providing private loans to our students, and we were not able to arrange for adequate alternative financing sources for the students attending our schools, the ability of students to finance their education would be impaired,

which could have a material adverse effect on our student population, financial condition, results of operations, and cash flows.

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 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 SEC.

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.

We derive a significant portion of our revenue and cash flows from Title IV Programs, as a significant portion of students who attend our U.S. schools 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 as an eligible institution by the ED. 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. As a result, our U.S. schools are subject to extensive regulation by the ED, various state agencies, and various 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, acquisitions or opening of new institutions, addition of new educational programs, and changes in our corporate structure and ownership. All of our domestic U.S. schools, with the exception of Kitchen Academy, participate in Title IV Programs. The following are some of the most significant regulatory requirements and risks related to governmental and accrediting body oversight of our business:

- 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, including the pending reauthorization of the HEA, could have a material adverse effect on our student population, results of operations, and cash flows.

- Our U.S. schools may lose their eligibility to participate in Title IV Programs if the U.S. schools 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 timely approve a change of control of us or any of our U.S. schools.

- 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 in any fiscal year 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 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 or terminate our U.S. schools operations or ability to grant degrees and certificates, (e) restrict or revoke our U.S. schools accreditations, or (f) 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.

In addition, if any of our U.S. schools were to lose, or fail to obtain, state authorization, the U.S. school would be unable to offer postsecondary education and we would be forced to close the U.S. school. If any of our U.S. schools were to lose its accreditation, the U.S. school would lose eligibility to participate in 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 U.S. school, we could be forced to close the U.S. school. 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 and the Regulation of the Postsecondary Education Industry 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.

The accreditation review of our American InterContinental University school has adversely affected and may continue to adversely affect our business, financial condition, results of operations, and growth prospects.

As previously disclosed, on December 6, 2005, we were notified by SACS that it had placed AIU, which includes seven of our on-ground campuses and our AIU Online campus, on Probation status for one year. This action followed a July 2005 SACS special committee visit of AIU which resulted in a report identifying specific recommendations for addressing certain deficiencies with respect to AIU s compliance with the SACS Principles of Accreditation. At SACS December 11, 2006, meeting, SACS extended AIU s Probation status through December 2007. Under the SACS rules an institution may only remain on Probation status for two consecutive years, after which SACS must either lift the Probation or remove the institution from membership. Adverse publicity related to this action has harmed the reputation of AIU and impaired AIU s ability to attract and retain students at our schools. In addition, this action has had, and will continued to have, a disruptive effect upon the operations of our business, including the diversion

of significant time and attention of AIU s senior management, which adversely affected our results of operations for 2006 and which we expect will adversely affect our results of operations for 2007. In addition, we have incurred substantial expenses in connection with this matter to implement various improvements at AIU. Although we are committed to responding fully to each area of concern raised by SACS, we cannot predict the outcome of this review. An unfavorable outcome could have a material adverse effect on our growth prospects, student population, financial condition, results of operations, and cash flows.

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 in recent years. In particular, allegations of wrongdoing have resulted in reviews or investigations by the U.S. Department of Justice (the Justice Department), the SEC, the ED, state agencies, and accrediting agencies of us and our schools. These allegations, reviews and investigations of us and certain of our peer companies, and any accompanying adverse publicity relating to these matters may have a material adverse effect on our business, financial condition, and results of operations and the market price of our common stock.

Risks Related to Our Business

If we are unable to successfully conclude the litigation, governmental investigations, and inquiries pending against us, our business, financial condition, results of operations, and growth prospects could be adversely affected.

CEC, certain of our subsidiaries and schools, and certain of our current and former directors and executive officers have been named as defendants in numerous lawsuits alleging violations of the federal securities laws. In addition, certain government agencies are conducting investigations regarding us, including the Justice Department. We are also subject to various other lawsuits, investigations, and claims, covering a wide range of matters, including, but not limited to, claims involving students or graduates and routine employment matters. Please see Note 13 Commitments and Contingencies of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of these matters.

We cannot predict the ultimate outcome of these matters and have incurred, and may continue to incur, significant defense costs and other expenses in connection with them. Such costs and expenses could have a material adverse effect on our business, financial condition, and results of operations and the market price of our common stock. We may 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 or results of operations.

As previously disclosed, in April 2006 we were advised by the staff of the Midwest Regional Office of the SEC that the staff intends to recommend to the SEC that it terminate its investigation of us. The staff of the SEC also advised us that it will recommend that no enforcement action be taken against us. Recommendations by the SEC staff do not, however, constitute final action by the SEC, as the SEC makes its own determination as to whether or not to follow the recommendations of the SEC staff. Accordingly, there can be no assurance that the SEC will terminate its investigation of us or that no enforcement action will be taken against us.

While we continue in our efforts to cooperate with and respond to requests for information from the Justice Department in connection with its ongoing investigation, we cannot predict the duration or outcome of the Justice Department investigation, and the investigation may expand, and other regulatory agencies may become involved. Similarly, the SEC investigation may be reopened. The outcome and costs associated with these investigations could have a material adverse effect on our business, financial condition, or results of operations, and the investigations could result in adverse publicity and divert the

efforts and attention of our management team from our ordinary business operations. The SEC and Justice Department investigations and any related legal and administrative proceedings could also include the institution of administrative, civil injunctive, or criminal proceedings against us or our current or former officers or employees, the imposition of fines and penalties, suspensions, or other remedies and sanctions. We may also be required to pay substantial damages or settlement costs in excess of our insurance coverage in connection with these matters, which could have a material adverse effect on our financial condition and results of operation and the market price of our common stock.

The turnover in our management team could negatively impact our business.

In 2006 and early 2007, we lost the services of several of our executive officers, including our long-time President and Chief Executive Officer. In addition, several other members of our senior management team departed in 2006 and early 2007, and other members assumed new roles in our organization. With the departures, we lost persons with a significant amount of experience and knowledge about our business, our students, and our industry and who maintained strong relationships with our regulators, accreditors, and employees. Further, we believe that the turnover of our senior management has created uncertainty that has adversely affected our relationships with our students and employees and also our reputation in the market place. The new members of our management team, including a new President and Chief Executive Officer when appointed, and the persons now serving in new positions may need to invest a significant amount of time to learn about new aspects of our business and our markets, which could limit their effectiveness in managing our business for a period of time. Further, there will likely be significant uncertainty as to how we will perform under new leadership. 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 recent headcount reductions may place additional strain on our resources, may impair our operations, and may adversely impact our ability to attract and retain qualified personnel.

In the fourth quarter of 2006, we commenced various corporate realignment initiatives intended to reduce costs and centralize our staffing and structure. In connection with these initiatives, we have restructured our organization and reduced our corporate workforce by approximately 120 employees, or approximately 12% of our total corporate workforce. Further reductions could occur if we are unable to grow our revenues. There have been and may continue to be severance and other employee-related costs associated with the workforce reduction, and our realignment plan may yield unanticipated consequences, such as attrition beyond the planned reduction. In addition, many of the employees who were terminated possessed specific knowledge or expertise, and we may be unable to transfer that knowledge or expertise to others in the organization. In that case, the absence of such employees creates significant operational difficulties. Further, the reduction in workforce may reduce employee morale and may create concern among potential and existing employees about job security, which may lead to difficulty in hiring and increased turnover in our current workforce and place undue strain upon our operational resources. Several of the employees who were terminated may also go to work for our competitors. As a result, our ability to respond to unexpected challenges may be impaired, and we may be unable to take advantage of new opportunities.

The loss of our key personnel could harm our business.

Our success to date has depended, and will continue to depend, largely on the skills, efforts, and motivation of our executive officers and other key personnel. Our success also depends, in large part, upon 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 the attraction and retention of 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.

Our future operating results and the market price of the 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 SFAS 142, we review on at least an annual basis our goodwill balances for impairment 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. As described in Note 9 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K, we recorded a goodwill impairment charge as of March 31, 2006, related to our discontinued Gibbs division in the amount of $10.4 million, pretax, and we recorded a goodwill impairment charge as of June 30, 2006, related to our Health Education division in the amount of $85.0 million, pretax. 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 in the future, our operating results and the market price of our common stock may be materially adversely affected.

We may be unable to successfully divest those schools and campuses included in the Sales Plan or to realize the anticipated benefits from such divestitures, which may adversely affect our business and results of operations.

A key component of our business strategy involves the divestiture of several of our schools and campuses, including the nine campuses that comprise our Gibbs division, McIntosh College, the Long Beach, California and Sunnyvale, California campuses of Brooks College and Lehigh Valley College. We may be unable to sell these schools and campuses on acceptable terms, if at all. In addition, the sale transactions and transition of the divested schools and campuses to other entities may require significant resources from our legal, finance and business development teams and result in expenses associated with the negotiation and consummation of those transactions and winding up of entities. In addition to the added costs of the divestiture, we may not ultimately achieve anticipated benefits or cost reductions from such divestitures. Even if we are able to sell these schools and campuses, we may face other risks, including material restructuring charges. All of these risks could adversely affect our business and results of operations.

Risks specific to our schools online campuses could have a material adverse effect on our business.

Our schools online campuses intend to increase student enrollments, and more resources will be required to support this growth, 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 standings with their regulators and accreditors, and meet their students needs in a timely manner. The expansion of our schools online campuses existing programs and the development of new programs may not be accepted by their students or the online education market, and new programs could be delayed due to current and future unforeseen regulatory restrictions.

The performance and reliability of the program infrastructure at our schools online campuses is critical to the reputation of these campuses and the campuses ability to attract and retain students. Any computer system error or failure, or a sudden and significant increase in traffic on our computer networks

that host our schools online campuses, may result in the unavailability of our schools online campuses computer networks. Individual, sustained, or repeated occurrences could significantly damage the reputation of our schools online campuses and result in a loss of potential or existing students. Additionally, our schools online campuses computer systems and operations are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Any interruption to our schools online campuses computer systems or operations could have a material adverse effect on the ability of our schools online campuses 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, our networks may be targeted by hackers. As a result, 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.

Budget constraints in states that provide state financial aid to our students could reduce the amount of such financial aid that is available to our students, 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 have faced budget constraints that have caused or may cause them to reduce state appropriations in a number of areas. These states may decide to reduce the amount of state financial aid that they provide to students, but we cannot predict how significant any future reductions in financial aid will be or how long any such reductions will persist. If the level of state funding for our students decreases and our students are not able 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. Alternatively, a number of states are recovering from budgetary constraints that caused them to reduce funding for public institutions, notably community colleges. Increased state support for such public institutions resulting in increased competition for students could have a material adverse effect on our results of operations, financial position, and cash flows.

High interest rates could adversely affect our ability to attract and retain students.

Interest rates have reached historical lows in recent years, creating a favorable borrowing environment for students attending our schools. Much of the financing our students receive is tied to floating interest rates. Interest rates have increased in recent months, resulting in a corresponding increase in the cost to our existing and prospective students of financing their education. We cannot predict whether interest rates will increase or decrease in the future, but additional rate increases could further increase the cost of borrowing for our students, which could result in a reduction in the number of students attending our schools and could adversely affect our results of operations, financial condition, and cash flows. Higher interest rates could also contribute to higher default rates with respect to our students repayment of Title IV Program and private loans. Higher default rates may, in turn, adversely impact our eligibility to participate in Title IV Programs or the willingness of private lenders to make private loan programs available to students who attend our schools, which could result in a reduction in the number of students attending our schools.

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.

As part of our business strategy, we expect to rely on acquisitions as a key 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 continue to be able to identify suitable acquisition opportunities or to acquire any such schools on favorable terms. In addition, we may incur debt to finance future acquisitions or issue securities in connection with future acquisitions, which may dilute the holdings of our stockholders. To the extent that we continue to pursue acquisitions of postsecondary educational institutions, our ability to complete such transactions may be adversely affected by the ongoing government investigations and regulatory reviews described in Note 13 Commitments and Contingencies Federal Regulatory Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K. Also, 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, our growth may be slowed and our profitability may be adversely affected.

As part of our business strategy, we anticipate opening new schools and new branch campuses of our existing schools throughout the U.S. Establishing new schools and branch campuses poses unique challenges and requires us to make investments in management and capital expenditures, incur marketing and advertising expenses, and devote resources that are different than, and in some cases greater than, those required with respect to the operation of our existing schools. We may not be able to identify or successfully pursue suitable expansion opportunities to help maintain or accelerate our current growth rate. We may not be able to successfully integrate or profitably operate 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.

To open a new school or branch campus, we would be required to obtain the appropriate approvals from applicable state and accrediting regulatory agencies, which may be conditioned, delayed, or denied in a manner that could significantly affect our growth plans. Approval by these regulatory agencies may be negatively impacted due to pending investigations, regulatory 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 school may be adversely affected by ongoing investigations and regulatory reviews described in Note 13 Commitments and Contingencies Federal Regulatory Actions of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K.

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. Accordingly, it is important for our schools educational programs to evolve in response to those economic and technological changes. The expansion of existing programs and the development of new programs may not be accepted by current or prospective students or the employers of our graduates. Even if our schools are able to develop acceptable new programs, our schools may not be able to begin offering those new programs as quickly as required by prospective employers or as quickly as our competitors offer similar programs. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes, or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could suffer, and our results of operations and cash flows could be adversely affected.

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.

The awareness of our schools and the programs that our schools offer among high school graduates and working adults is important to the success of our schools. 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, and our failure to maintain or expand our brand names or other factors related to our marketing or advertising practices.

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 are able to 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. In addition, some of our competitors in both the public and private sectors may have substantially greater financial and other resources than we do. An increase in competition could affect the success of our marketing efforts and enable our competitors to recruit prospective students more effectively. If we were to lose market share due to increased competition, we may be required to 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 agreements limit our ability to take various actions.

Our credit agreements limit our ability to take various actions, including paying dividends and disposing of assets. Accordingly, we may be restricted from taking actions that management believes would be desirable and in the best interests of us and our stockholders. Our credit agreements also require us to satisfy specified financial and non-financial covenants. A breach of any covenants contained in our credit agreements could result in an event of default under the agreements and allow the lenders to pursue various remedies, including accelerating the repayment of any indebtedness outstanding thereunder, 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 December 31, 2006, the most recent date of disclosure required under the Exchange Act, no individual shareholder owned more than 15.50% of the combined voting power of our then outstanding common stock. However, if any person or entity, including a group, were to acquire additional shares of our common stock such that they would beneficially own 20% or more of the combined voting power of our common stock, a change in control would be deemed to have occurred under our 1998 Employee Incentive Compensation Plan and 1998 Non-Employee Director Stock Option Plan. In that case, we would be required to recognize substantial share-based compensation expense and an additional liability in an amount equal to the estimated obligation that would be due to plan participants who elected to surrender to us all or part of a share-based award in exchange for cash. The recognition of this additional expense and liability would have a material adverse affect on our operating results and financial condition. See Note 16 Share-based Compensation of the notes to our consolidated financial statements in Part IV,

Item 15 of this Annual Report on Form 10-K for further discussion of the effects of a change in control under our share-based compensation plans.

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:

- Our ability to meet or exceed our own forecasts or 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 and state laws and regulations and accreditation standards;
- The initiation, pendency, or outcome of litigation, regulatory reviews, and investigations, including the pending Justice Department and SEC investigations, the SACS review, and any adverse publicity related thereto;
- Changes in our own forecasts or 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 such shares were purchased. 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 schools 75 on-ground campuses are located throughout the United States and in France, Canada, 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.

A majority of our campus locations and all of our corporate headquarter locations are leased. As of January 31, 2007, we leased approximately 6.1 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to 21 years. As of January 31, 2007, we leased approximately 1.1 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from two years to 16 years. As of January 31, 2007, we owned real property at the following campuses:

- American InterContinental University, Houston, Texas University segment
- Brooks Institute of Photography, Santa Barbara, California Colleges segment
- The Cooking and Hospitality Institute of Chicago, Chicago, Illinois Culinary Arts segment
- Pennsylvania Culinary Institute, Pittsburgh, Pennsylvania Culinary Arts segment

See Part I, Item 1 of this Annual Report on Form 10-K for a detailed table listing each of our campus locations. These properties exclude assets held for sale.

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 13 Commitments and Contingencies Litigation and Federal, State, and Accrediting Body Regulatory Actions 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 2006.

PART II

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

Our common stock has been quoted on the NASDAQ National Market under the symbol CECO since January 29, 1998. In July of 2006, the NASDAQ National Market was renamed the NASDAQ Global Market. In conjunction with this change, NASDAQ created the new NASDAQ Global Select Market. As a result, our common stock is now quoted on the NASDAQ Global Select Market. We will use the term NASDAQ to describe the NASDAQ National Market and the NASDAQ Global Select Market.

The following table sets forth the range of high and low sales prices per share for our common stock as reported on the NASDAQ for the periods indicated. The split-adjusted initial public offering price of our common stock on January 29, 1998, was $2.00 per share.

	High	Low
2006		
First quarter	$ 37.74	$ 30.24
Second quarter	42.59	29.41
Third quarter	29.90	17.60
Fourth quarter	27.77	20.71

	High	Low
2005		
First quarter	$ 42.05	$ 32.74
Second quarter	39.23	29.02
Third quarter	41.11	35.56
Fourth quarter	38.84	32.47

The closing price of our common stock as reported on the NASDAQ on February 27, 2007, was $29.43 per share. As of February 27, 2007, there were 170 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 agreements.

Since July 2005, our Board of Directors has authorized the use of a total of $500.2 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 the fourth quarter of 2006, we repurchased 1.7 million shares of our common stock for approximately $41.3 million at an average price of $25.01 per share. During 2006, we repurchased 5.6 million shares of our common stock for approximately $166.1 million at an average price of $30.20 per share.

Since the inception of the stock repurchase program, we have repurchased 10.8 million shares of our common stock for approximately $366.3 million at an average price of $34.00 per share. We are authorized under the program to use an additional $133.8 million to repurchase outstanding shares of our common stock.

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, 2006, with respect to shares of our common stock that may be issued under our existing share-based compensation plans.

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 income data set forth below for each of the five years ended December 31, 2006, 2005, 2004, 2003, and 2002, and the balance sheet data as of December 31, 2006, 2005, 2004, 2003, and 2002, are derived from our consolidated financial statements (dollars in thousands, except per share data).

	For the Year Ended December 31,				
	2006	**2005**	**2004**	**2003(1)**	**2002**
Selected Statement of Income Data					
Total revenue	$ 1,785,619	$ 1,828,498	$ 1,472,542	$ 923,892	$ 549,751
Educational services and facilities expense	552,051	531,353	453,614	316,905	212,012
General and administrative expense	905,340	845,231	680,966	389,247	238,433
Depreciation and amortization expense	75,385	66,108	46,670	34,292	24,235
Goodwill and intangible asset impairment charge(2)	86,335				
Income from operations	166,508	385,806	291,292	183,448	75,071
Operating profit margin percentage	9 %	21 %	20 %	20 %	14 %
Total other income	20,936	14,273	3,794	3,796	399
Provision for income taxes	92,692	149,630	115,821	75,555	31,115
Income from continuing operations	94,752	250,449	179,265	111,689	44,355
Income (loss) from discontinued operations, net of tax(3)	(48,183)	(16,571)	354	1,115	17,464
Net income	$ 46,569	$ 233,878	$ 179,619	$ 112,804	$ 61,819
Net income per share-basic					
Income from continuing operations	$0.98	$2.48	$1.76	$1.16	$0.48
Income/(Loss) from discontinued operations	(0.50)	(0.16)		0.01	0.19
Net income	$0.48	$2.32	$1.76	$1.17	$0.67
Net income per share-diluted					
Income from continuing operations	$ 0.97	$ 2.42	$ 1.71	$ 1.11	$ 0.47
Income / (Loss) from discontinued operations	(0.50)	(0.16)		0.01	0.18
Net income	$ 0.47	$ 2.26	$ 1.71	$ 1.12	$ 0.65

	As of December 31,				
	2006	2005	2004	2003(1)	2002
Selected Balance Sheet Data					
Assets:					
Cash, cash equivalents, and investments	$ 447,824	$ 401,369	$ 315,981	$ 142,326	$ 28,141
Student receivables, net	48,160	57,601	61,363	62,663	42,880
Assets held for sale	69,171	21,690	59,434	63,715	44,010
Total current assets	662,443	653,102	586,905	396,105	205,048
Assets held for sale, long term		79,809	85,805	74,878	61,691
Total assets	1,425,663	1,495,303	1,375,512	1,118,298	587,908
Liabilities:					
Liabilities held for sale	33,702	20,243	27,143	42,197	41,748
Total current liabilities	312,503	326,623	316,994	327,584	177,243
Liabilities held for sale, long term		10,673	7,838	3,164	2,976
Total long-term debt, less current maturities	2,763	16,357	21,591	25,453	2,684
Total liabilities	429,785	459,056	390,681	389,129	194,498
Working capital (deficit)	349,940	326,479	258,411	68,521	27,805
Share-based awards subject to redemption(4)	13,477				
Stockholders Equity:	(366,319)	(200,158)			
Total stockholders equity	$ 982,401	$ 1,036,247	$ 984,831	$ 729,169	$ 393,410

	For the Year Ended December 31,				
	2006	2005	2004	2003(1)	2002
Selected Statement of Cash Flows Data					
Net cash provided by operating activities	$ 216,390	$ 378,225	$ 376,154	$ 233,287	$ 106,230
Net cash used in investing activities	(56,453)	(399,537)	(141,770)	(190,446)	(68,087)
Net cash provided by (used in) financing activities	(111,239)	(189,703)	(50,915)	81,409	(44,497)
Capital expenditures	$ 69,473	$ 125,626	$ 142,781	$ 100,272	$ 60,871

	For the Year Ended December 31,				
	2006	**2005**	**2004**	**2003(1)**	**2002**
Selected Other Data					
EBITDA(5)	$ 245,732	$ 456,048	$ 341,640	$ 222,421	$ 101,056
EBITDA margin percentage(5)	13.80 %	24.90 %	23.20 %	24.10 %	18.40 %
Number of campuses(6)	90	86	82	78	43
Ending student population(7)	97,100	107,300	100,350	81,900	51,600
Student starts(8)	100,240	116,350	108,500	76,150	47,450
Retention rate(9)	66.50 %	63.80 %	65.90 %	67.30 %	73.00 %

(1) On July 1, 2003, we acquired 100% of the issued and outstanding stock of Whitman Education Group, Inc. (Whitman). Whitman was a proprietary provider of career-oriented postsecondary education. Through three wholly-owned subsidiaries, Whitman operated 22 schools in 13 states that offered a range of health education, information technology, and business studies.

(2) During 2006, we recorded a goodwill and other intangible asset impairment charge of $86.3 million related to our Health Education segment. See Note 9 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of goodwill impairment.

(3) See Note 4 Discontinued Operations of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of discontinued operations.

(4) Share-based awards subject to redemption on our consolidated balance sheet as of December 31, 2006, represents the pro rata grant-date cash redemption value of each outstanding stock option award for which the plan participant has the right, or may be granted the right, under our share-based compensation plans, upon the occurrence of a change in control event, to surrender all or part of his or her stock option awards to us in exchange for cash. Prior to our adoption of SFAS 123R, we were not required to record an amount for share-based awards subject to redemption on our consolidated balance sheet. See Note 16 Share-Based Compensation of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of share-based awards subject to redemption.

(5) For any period, earnings before interest, taxes, depreciation, and amortization (EBITDA) is calculated as follows:

	For the Year Ended December 31,				
	2006	**2005**	**2004**	**2003(1)**	**2002**
Income from Continuing Operations	$ 94,752	$ 250,449	$ 179,265	$ 111,689	$ 44,355
Provision for income taxes	92,692	149,630	115,821	75,555	31,115
Interest income	(19,002)	(11,937)	(2,918)	(952)	(524)
Interest expense	1,905	1,798	2,802	1,837	1,875
Depreciation and amortization	75,385	66,108	46,670	34,292	24,235
EBITDA	$ 245,732	$ 456,048	$ 341,640	$ 222,421	$ 101,056

EBITDA margin percentage equals EBITDA divided by total revenue. Neither EBITDA nor EBITDA margin percentage should be considered alternatives to, nor is there any implication that they are more meaningful than, any measure of performance or liquidity promulgated under accounting principles generally accepted in the U.S. We believe that EBITDA is particularly meaningful due principally to the role acquisitions have played in our development. Historically, our growth through acquisitions has resulted in significant non-cash depreciation and amortization

expense because a significant portion of the purchase price of an acquired school is generally allocated to depreciable fixed assets.

(6) Represents the total number of campuses operated by our continuing and discontinued schools, including our schools fully-online platforms, as of December 31.

(7) Represents the approximate ending student population as of October 31 for our continuing and discontinued operations.

(8) Represents the approximate total new student starts of our continuing and discontinued schools for the years ended December 31.

(9) Represents the consolidated retention rate of our continuing and discontinued schools for the years ended December 31. This rate was determined in accordance with the standards set forth by the ACICS, which determines annual retention rates by dividing the total number of student withdrawals or dismissals during the year by the sum of (a) beginning student population, (b) new student starts, and (c) student re-enters, and subtracting the resulting quotient from 1.

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 used words such as anticipate, believe, plan, expect, intend, will, and similar expressions, but these words are not the exclusive means of identifying these 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 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.

INTRODUCTION

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial condition, critical accounting policies and estimates, and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto appearing elsewhere herein. This section is organized as follows:

- ***Our Business*** an overview of our business, a discussion of current business and industry opportunities, challenges, and risks, and a discussion of significant developments affecting our business, litigation, and regulatory matters.

- ***Summary of Critical Accounting Estimates*** a discussion of accounting estimates that we believe require management s most subjective or complex judgments.

- ***Results of Operations*** an analysis and comparison of our consolidated results of operations for the years ended December 31, 2006, 2005, and 2004, as reflected in our consolidated statements of income.

- ***Liquidity, Financial Position, and Capital Resources*** a discussion of our primary sources and uses of cash for the years ended December 31, 2006 and 2005, a discussion of selected changes in our financial position, and a summary of our future contractual obligations.

OUR BUSINESS

Overview

We are a dynamic educational services company committed to quality, career-focused learning and led by passionate professionals who inspire individual worth and lifelong achievement. Since our founding in 1994, we have progressed rapidly toward our goal of becoming the world s leading provider of quality educational services. We are one of the world s leading on-ground providers of private, for-profit, postsecondary education and have a substantial presence in online education. Our schools and universities prepare students for professionally and personally rewarding careers through the operation of 77 on-ground campuses located throughout the United States and in France, Canada, Italy, and the United Kingdom and two fully-online academic programs.

We evaluate our business based on our operating segments, which we define as our operating divisions. Each of our school and university operating divisions represents a group of for-profit, postsecondary schools that offer a variety of degree and non-degree academic programs and are differentiated based on a variety of criteria including, but not limited to, brand name, academic offerings, and geographic location. We have six school reportable segments, the Academy segment, the Colleges segment, the Culinary Arts segment, the Health Education segment, the International segment (formerly known as the INSEEC segment,) and the University segment, and one non-school reportable segment, the JDV Online segment.

The Academy segment includes our International Academy of Design and Technology (IADT) campuses that collectively offer academic programs primarily in the career-oriented discipline of visual communications and design technologies in a classroom setting.

The Colleges segment includes schools that collectively offer academic programs in our core career-oriented disciplines of business studies, health education, information technology, and visual communications and design technologies in a classroom or laboratory setting.

The Culinary Arts segment includes our Le Cordon Bleu 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.

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

The International segment includes our INSEEC Group schools that are located throughout France and collectively offer academic programs in the career-oriented disciplines of business studies, health education, and visual communication and technologies in a classroom or laboratory setting.

The University segment includes our American Intercontinental University (AIU) and Colorado Technical University (CTU) universities that collectively offer academic programs in the career-oriented disciplines of business studies, visual communication and design technologies, health education, information technology, criminal justice, and education in an online, classroom, or laboratory setting.

The JDV Online segment was launched in October 2004 and focuses on the development of a range of short-term online learning and informational programs that generates revenue through the sale of products, premium digital content, and advertising space. The JDV Online segment s primary ventures

include Chefs.com, a consumer-focused culinary website, and Blish.com, a comprehensive online marketplace aimed at uniting buyers and sellers of digital content.

During 2007, in connection with our commitment to a more focused business strategy, we will be eliminating our JDV Online segment by transferring Chefs.com to our Culinary Arts segment and discontinuing Blish.com.

The student population of each of our continuing school reportable segments as of January 31, 2007 and 2006, was as follows:

	Student Population as of January 31,	
	2007	**2006**
Segment		
University segment	41,000	46,400
Health Education segment(1)	11,600	10,700
Culinary Arts segment	10,900	11,500
Academy segment	9,500	9,800
Colleges segment	8,700	10,200
International segment	7,600	5,500
	89,300	94,100

(1) Student population excludes SBI Springfield, which is currently being taught out

As discussed above, our University segment schools offer fully-online academic platforms. As of January 31, 2007 and 2006, approximately 28,600 and 32,700 students, respectively, were enrolled in fully-online academic programs at our University segment schools.

See Note 18 Segment Reporting of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of the financial results of our reporting segments for each of the last three years and for a discussion of the seasonality of the results of operations four our schools.

2006 Overview.

Total revenue from continuing operations during 2006 was $1.786 billion, a decrease of $42.0 million, or 2.3%, from total revenue during 2005 of $1.828 billion. Operating income from continuing operations during 2006 was $166.5 million, a decrease of $219.3 million, or 56.8%, from operating income from continuing operations during 2005 of $385.8. Net income from continuing operations during 2006 was $94.8 million, or $0.97 per diluted share, compared to net income from continuing operations during 2005 of $250.4 million, or $2.42 per diluted share, a decrease of $155.6 million, or 62.1%.

The decline in our continuing operating results represents a continuation of weak operating performance experienced in recent periods, which has been influenced by a number of factors, including, but not limited to, (1) the continued Probation status of our AIU schools, (2) tightened credit standards and collection practices implemented to mitigate our bad debt exposure, (3) general competitive pressures for student leads and enrollments experienced by some of our schools, (4) the ED s general restrictions on our ability to open new branch campuses in 2006, (5) the continued negative impact of legal and regulatory matters, and (6) the related negative publicity and negative press coverage regarding us and certain of our schools. The ED notified us in a January 19, 2007, letter that it had lifted restrictions it imposed in June 2005 that had prevented us from acquiring domestic schools and opening additional branch campuses of our existing domestic schools.

We believe that the factors identified above have adversely impacted the rate at which our leads for prospective students convert into enrolled students (conversion rate) and the rate at which our enrolled

students start school (start rate).The combined conversion rate and start rate of our continuing schools declined during 2006 by 0.6 percentage points and 1.1 percentage points relative to the combined conversion rate and start rate achieved by our continuing schools during 2005.

Income from continuing operations as a percentage of total revenue from continuing operations declined from 21.1% during 2005 to 9.3% during 2006. The decrease in continuing operating profit margin percentage during 2006 was primarily attributable to:

- An unfavorable segment revenue mix change resulting in disproportionately larger revenue declines in our University segment, which produced the highest operating profit margins during 2005;

- A decrease in operating profit margin percentage generated by our University segment, driven primarily by (1) a decline in revenue, caused, in part, by reductions of the prices of our AIU Online associate s degree programs, (2) an increase in administrative expenses, and (3) the disproportionate growth of CTU Online, which operates at a lower operating profit margin percentage than does AIU Online;

- Increased occupancy expense and other fixed costs as a percentage of revenue due to declines in revenue;

- Goodwill and other intangible asset impairment charges of approximately $86.3 million attributable to our Health Education segment;

- Share-based compensation costs of approximately $15.2 million recorded in connection with our 2006 adoption of SFAS 123R, and

- Severance costs associated with the retirement of our former Chairman of approximately $5.8 million.

The decrease in continuing operating profit margin percentage was offset, in part, by a decrease in bad debt expense as a percentage of revenue.

We expect 2007 to be a period of transition and opportunity. While our results continue to be negatively affected by a number of near-term factors, we have taken steps during the fourth quarter of 2006 and the first quarter of 2007 to address these issues and better position the company to achieve its long-term potential. We have executed on several measures as part of a strategic plan to better focus our business, increase efficiency and profitability, and ensure that the company s priorities align with those of our students. These initiatives include the following:

- We are completing a corporate realignment that will facilitate more consistent customer-focused decision making by reducing redundancies and streamlining the decision making process.

- We have developed an Online Service Center to leverage significant online and on-ground capabilities to provide students at all of our schools with more flexible educational delivery options. Through the service center, the technology that AIU Online and CTU Online currently use will be leveraged to make online and flexible education available across all of our schools. As a service provider, the service center will offer customization to meet the varying needs of our students and the varying curricula of our individual schools. The ability to offer flexible educational delivery combined with the large number of and variety of our brick-and-mortar campuses further distinguishes us in the marketplace, giving more students more choices to learn in ways that fit more lifestyles.

- We have introduced measures that we believe will have a positive impact on admissions productivity, including a supplemental compensation program for admissions representatives,

extended payment plans for students, a process for better qualification of leads, and a greater focus on referrals.

- We continue to focus on building our strengths in careers of passion. On November 15, 2006, we announced our intention to sell 13 schools and campuses, including our entire Gibbs segment and select schools in the Colleges segment. By focusing on areas where we have the greatest competitive advantages and proven success, we believe we can more effectively prepare students for careers they are passionate about through our high-quality boutique schools, gold-standard brands, and flexible student-centered product offerings.

- We are continuing to open start-up campuses and have made an international acquisition consistent with our focus on premier schools and careers of passion.

- We will continue to evaluate individually the pricing of each of our programs at each of our schools to ensure that the prices of our academic offerings are properly aligned with perceived value, identified price sensitivities, and competitive forces.

- We will continue to evaluate the alternative financing options that we and our lenders make available to prospective students. We will strive to provide greater flexibility in alternative financing options to give prospective students diverse and affordable options to finance the cost of their education.

We believe that the significant steps we have taken to realign and refocus our business will both position the company in the short term as an innovative leader in the delivery of high-quality postsecondary education and allow us to cost-effectively leverage our assets to build long-term value. We continue to be committed to delivering value over the long term to our students, employees, and stockholders.

Current Business and Industry Opportunities, Challenges and Risks

In addition to the risk factors discussed in Part I, Item 1A Risk Factors of this Annual Report on Form 10-K, we have identified a number of key factors and trends related to our business and industry that represent opportunities, challenges, and risks.

SACS Probation Status of AIU. As previously disclosed, on December 6, 2005, the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) placed AIU on Probation status for one year pending AIU s satisfactory remediation of certain accreditation matters with regard to SACS Principles of Accreditation. This action followed a July 2005 SACS special committee visit of AIU which resulted in a report identifying specific recommendations for addressing certain deficiencies with respect to AIU s compliance with the SACS Principles of Accreditation. In October 2006, a SACS special committee completed site visits of selected AIU campuses. At SACS December 11, 2006 meeting, SACS extended AIU s Probation status through December 2007. Under SACS rules, an institution may remain on Probation status for two consecutive years, after which SACS must either lift the Probation or remove the institution from membership.

This action has had, and will continue to have, a disruptive effect upon operations of AIU and our business generally, including, the diversion of significant time and attention of AIU s senior management, which adversely affected our results of operations for 2006, and which we expect will adversely affect our results of operations in 2007.

AIU remains accredited during this probationary period and is committed to resolving all issues identified by SACS. We cannot predict the outcome of SACS future accreditation actions, and unfavorable outcomes could have a material adverse effect on our growth prospects, student population, financial condition, results of operations, and cash flows.

U.S. Department of Education Review. As previously disclosed, the U.S. Department of Education (ED) notified us in June 2005 that it was reviewing our previously announced restated consolidated financial statements and our annual compliance audit opinions for the years 2000 through 2003. At the same time, the ED also advised us that it was evaluating four pending school program reviews that were conducted at certain of our schools, three of which were completed and closed during 2006. The ED indicated that until these matters were addressed to its satisfaction, it would not approve any new applications by us for pre-acquisition review or change of ownership. The ED further advised us that, during the review period, it would not approve applications for any additional branch campuses, which the ED generally refers to in its regulations as additional locations.

In a November 6, 2006 meeting, officials of the ED informed us that it would select ten to 12 of our institutions for program reviews to be conducted before it would consider lifting the restrictions on new applications described above. During the months of November and December, 2006 and January and February 2007, the ED conducted site visits at ten of our institutions as part of such program reviews.

The ED notified us in a January 19, 2007, letter that, based upon the preliminary results of these program reviews, it would remove the growth restrictions that it imposed in June 2005. The ED stated that any subsequent request by us to expand our operations would be considered in accordance with the ED s standard operating procedures. The ED emphasized that the removal of the growth restrictions should not be construed to suggest that any Title IV compliance issues identified had been resolved or that program reviews currently in process would be concluded.

The ED s restriction of our ability to open new branch campuses prohibited our ability during 2006 and the second half of 2005 to pursue domestic expansion opportunities in underserved or emerging markets.

Sales Plan for Certain of Our Schools and Campuses. On November 14, 2006, our Board of Directors approved a plan to sell 13 of our schools and campuses (the Sales Plan). The Sales Plan includes the anticipated sale of our nine Gibbs campuses, which collectively comprised our entire Gibbs reportable segment, McIntosh College (McIntosh), Lehigh Valley College (Lehigh), and Brooks College (Brooks), including Brooks Long Beach, California and Sunnyvale, California campuses. McIntosh, Lehigh, and Brooks were previously components of our Colleges reportable segment.

While we believe that each of the campuses included in the Sales Plan is a valuable asset with effective academic programs, we do not believe that our continued operation of these campuses is consistent with our near-term and long-term strategic goals. We will continue to reasonably invest in the campuses included in the Sales Plan in preparation for a sale. We believe that the Sales Plan is a critical component of our overall strategy to strengthen operational results and provide more effective focus on preparing students for careers they are passionate about through high-quality boutique schools, gold-standard brands, and flexible student-centered program offerings. Also, upon selling the campuses in the Sales Plan, we believe that we will be better positioned to target our business strategy and leverage resources to maximize value for our students, employees, and stockholders.

We have not yet secured a buyer for any of the schools or campuses included in the Sales Plan, but we have retained an investment banking firm to assist our management in identifying potential buyers and evaluating any proposals put forth by any such potential buyers. Each of the schools and campuses within the Sale Group is available for immediately sale in its present condition, and we anticipate completing the sale of each of the campuses included in the Sales Plan during 2007. The sales will be subject to approval by the ED and various state regulatory and accrediting agencies, as applicable.

In connection with the execution of the Sales Plan, we have recorded non-cash charges of $9.8 million, net of income tax benefit of $5.2 million, during 2006 to write-down to fair value the carrying value of tangible and intangible assets of the campuses to be sold. The results of operations of the schools and campuses included in the Sales Plan have been classified as discontinued operations.

See Note 4 "Discontinued Operations" of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of our accounting for discontinued operations.

Decline in University Segment Profitability. The operating margin percentage of our University segment, excluding share of affiliate earnings, declined to 24.4% during the year ended December 31, 2006, from 32.5% during the year ended December 31, 2005. The decline in University segment operating profit margin percentage during 2006 is primarily attributable to the decline during 2006 in the combined operating profit margin percentage of our University segment s fully-online academic platforms, which include AIU Online, CTU Online, and Stonecliffe College Online (an academic division of CTU).

A significant portion of the total student population, revenue, and operating profits of our University segment are attributable to AIU Online. However, AIU Online student population, revenue, and operating profit declined during 2006. The decrease in AIU Online s student population, revenue, and operating profits is primarily attributable to the maturation of AIU Online s academic offerings and the adverse impact of negative publicity related to AIU s Probation status with its accrediting body, SACS. These factors have adversely impacted AIU Online s start rate during the year ended December 31, 2006, relative to its start rate during the year ended December 31, 2005. Due to the accelerated nature of AIU Online academic programs, AIU Online revenue per student is generally greater than revenue per student generated by our other schools. Thus, given the relatively quick turnover of AIU Online students, when AIU Online experiences student start declines, the impact on student revenue, and, ultimately, operating profits, is significant and immediate, because new revenue-generating student starts are insufficient to replace graduating students.

The decline in AIU Online student population, revenue, and operating profits is also attributable to greater competition and greater consumer price sensitivity within the online, postsecondary education market. In response to such emerging market forces, AIU continually evaluates its online programs to ensure that the programs are market relevant and competitively priced. AIU has historically marketed AIU Online s programs as premium academic product due to the quality of educational content and the technology used to deliver the program. However, market research conducted by AIU during 2006 revealed the significant price sensitivity among prospective students for AIU Online s associate s degree programs. Based on this information, AIU Online reduced the pricing of its associate s degree programs beginning in July 2006. AIU did not identify similar price sensitivities among prospective students for AIU Online s bachelor s and master s degree programs and, thus, it did not reduce the pricing of its bachelor s and master s degree programs. We believe there remains a high level of interest in AIU Online s accelerated programs, and AIU expects to further expand AIU Online s program offerings to include part-time offerings for bachelor s and master s degrees.

Also, as previously discussed, we expect that the combined operating margin percentage achieved by our University segment and our University segment s online platforms will continue to decline from prior period levels primarily as a result of the continued disproportionate operating profit growth of CTU Online and Stonecliffe College Online (an academic division of CTU). CTU Online has historically operated at a lower operating margin percentage than that of AIU Online. Thus, the growth of CTU Online operations is effectively lowering the operating margin percentage of the University segment as a whole. Additionally, as a result of the disproportionate growth of CTU Online and the introduction of Stonecliffe College Online, both of which offer longer-termed programs than does AIU Online, we expect average revenue per online student to continue to decrease in the future. However, we believe that by providing our students with a flexible array of online program options, we will enhance our University segment schools ability to expand their presence in the online, postsecondary education market.

The results of operations and operating margin percentage of our University segment during 2006 were positively impacted by a decrease in bad debt expense as a percentage of revenue. The decrease in

University segment bad debt expense as a percentage of revenue was primarily attributable to an increased focus on the collection of amounts due from students who have left school, mainly through the use of outside collection agencies.

Impact of Changes in Credit Standards. We believe that student population, revenue, and operating profits at certain of our schools were negatively impacted during 2006 as a result of (1) the implementation by Sallie Mae in March 2006 of stricter credit standards at all of our schools for certain prospective students seeking to fund a portion of their education through Sallie Mae s non-recourse loan program (2) our decision to stop offering loans made under the Stillwater Bank Purchase Agreement to new students, and (3) the continued application of strict credit standards by all of our schools. We believe these stricter credit standards have reduced bad debt expense from previous levels but also have limited the number of prospective students who qualified for certain private financing options.

We believe that the stricter credit standards had the most significant impact during 2006 on our Culinary Arts segment operating results. The inability of prospective students to qualify for private financing options generally has a greater effect on our Culinary Arts segment schools than on our other schools because our Culinary Arts schools culinary arts programs, on average, are priced higher than other programs offered by our schools. Also, certain of our Culinary Arts segment schools are destination schools that attract students from outside the local community, and, generally transplanted students who attend these destination schools utilize private financing options to fund living expenses in addition to tuition expenses. These factors generally result in prospective culinary arts program students requiring greater access to private financing sources to finance the difference between total tuition and living expenses for their chosen academic program and any funding that may be available to the student through federal or state financial aid programs.

During August and September of 2006, we reevaluated the impact of stricter credit standards and implemented certain changes in the credit standards for students at all of our schools. We also began offering our students extended payment plans to finance their tuition. These extended payment plans allow students to make an affordable monthly payment while they attend school and pay their remaining balance after they graduate or leave school. Under our extended payment plans, students may be granted up to 10 years to repay their extended payment plan balances, which is generally the same amount of time that students are granted to repay their Stafford Loans.

These changes to our credit standards were intended to mitigate, in part, the negative effects of our original tightening of credit standards for all schools. We believe the changes to our credit standards implemented during the third quarter of 2006 and our offering of extended payment plans positively affected our Culinary Arts segment schools and Health Education segment schools ability to start students during the second half of 2006 relative to the first half of 2006. The Culinary Arts and Health Education segments were most significantly impacted by the third quarter 2006 changes to our credit standards and our offering of extended payment plans because the schools within our Culinary Arts segment generally start the greatest number of students during August and September, and the schools within our Health Education segment generally start new students consistently each month during the year. Our other operating divisions generally start the greatest number of students during July, thus, we do not expect these credit standard changes or our extended payment plan offerings to significantly affect student starts until 2007.

International Expansion. We believe that the international market for our services represents a significant growth opportunity. We believe that international students are increasingly utilizing online U.S. educational programs as a means of obtaining a U.S. education without incurring the related significant travel and living costs and facing stringent visa requirements associated with studying abroad. Additionally, we continue to pursue opportunities to expand our on-ground presence internationally, both

through the organic growth of our existing schools, such as our INSEEC Group schools, and through potential acquisitions of foreign educational institutions.

On January 25, 2007, we acquired Istituto Marangoni, a world-renowned post-secondary fashion and design school with locations in three prominent international fashion capitals: Milan, London, and Paris. The acquisition expands our European market and marks our entry into the Italian market.

Istituto Marangoni, which has approximately 1,500 students, offers undergraduate and graduate level diploma programs in fashion design and other related fields such as fashion styling, fashion business, fashion promotion, furniture design, product design, interior design and graphic design.

Reorganization of our Management Structure and Reportable Segments. Prior to the first quarter of 2006, based on our interpretation of Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), we had identified two reportable segments: Colleges, Schools, and Universities, which represented our on-ground schools that provide educational services primarily in a classroom or laboratory setting and offered a variety of degree and non-degree certificate and diploma programs in each of our core career-oriented disciplines, and the Online Education Group, which represented the fully-online academic platforms offered by AIU, AIU Online, and Colorado Technical University (CTU), CTU Online and Stonecliffe College Online (an academic division of CTU). The on-ground campuses of AIU and CTU were previously included as part of the Colleges, Schools, and Universities segment.

During the first quarter of 2006, our University division completed a reorganization of its management structure, specifically with respect to the management of our University division schools, AIU and CTU, and those universities fully-online academic platforms. Since the reorganization, both the on-ground campuses and the fully-online platforms of AIU and CTU have been analyzed by us as one operating segment.

During the third quarter of 2006, our Colleges division completed a reorganization of its management structure. Since this reorganization, all schools within the Colleges division have been managed by a single divisional management team and the division s results have been analyzed by us as a single operating segment. Prior to the reorganization, the operations of the Colleges division were segregated into two divisions based on the geographic locations of the schools.

Upon completion of the University and the College division s reorganizations, we also evaluated our other operating segments in accordance with the provisions of SFAS 131. Based on our interpretation of SFAS 131, we identified six school reportable segments the Academy segment, the Colleges segment, the Culinary Arts segment, the Health Education segment, the International segment (formerly known as the INSEEC segment), the University segment and one non-school reportable segment the JDV Online segment. All prior period financial and population information included herein has been restated to reflect our new internal management structure and the resulting changes in the composition of our reportable segments.

Increased Competition. During 2006, we experienced increased competition for our universities fully-online platforms and in certain of the markets served by our campuses.

Hybrid Learning. During 2005, we made advances in the development of our unique hybrid learning model, which capitalizes on our schools' online campuses' virtual campus platform and enables students at our on-ground campuses to complete their academic programs on-ground or online. AIU and CTU were our first on-ground schools to offer hybrid educational programs as a complement to those schools' existing online campuses. We expect to expand our hybrid learning offerings to other selected schools during 2007.

Adoption of Share-Based Compensation Accounting Rules. On January 1, 2006, we adopted the provisions of SFAS No. 123 (revised), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that all share-based payments to employees and non-employee directors be recognized in the financial statements based on the estimated fair value of the equity or liability instrument issued. We previously accounted for share-based compensation using the intrinsic value method as defined in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25). Prior to January 1, 2006, no share-based employee compensation cost, other than the insignificant costs associated with infrequent issuances of shares of nonvested stock, was reflected in our statements of income. During the year ended December 31, 2006, we recognized share-based compensation expense of approximately $17.1 million, pretax, approximately $16.9 million of which is attributable to our continuing operations. Approximately $1.7 million of share-based compensation recognized during 2006 was recorded in connection with modifications made during 2006 to certain options held by our former Chairman.

Litigation and Regulatory Matters

See Note 13 Commitments and Contingencies of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for a discussion of selected litigation and regulatory matters.

Recent Accounting Pronouncements

See Note 3 Recent Accounting Pronouncements of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for a discussion of recent accounting pronouncements that may affect us.

ACQUISITIONS

See Note 23 Subsequent Events of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for a discussion of our acquisition of Istituto Marangoni.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

We have identified the accounting 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 Significant Accounting Policies of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K, which includes a discussion of these and other significant accounting policies.

Allowance for Doubtful Accounts

We extend unsecured credit for tuition to a portion of the students who are enrolled at our schools. Based upon past experience and judgment, we establish an allowance for doubtful accounts with respect to tuition receivables. Our schools calculate and record allowances for doubtful accounts based on a standard allowance estimation methodology developed by corporate financial management. Our standard 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 history. 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.

Our allowance estimation methodology divides our accounts receivable due from in-school students into groups according to each student s primary funding source. Our allowance methodology for out-of-school student accounts separates such accounts into two categories of students those who have completed their programs of study and those that have not. We apply allowance percentage estimates that are based upon our historical collections experience to each in-school student funding source group and out-of-school student category.

We monitor our collections and write-off experience to assess whether adjustments to our allowance percentage estimates are necessary. As a result we believe that our allowance estimation methodology reflects our most recent collections experience and is responsive to changes in the total mix of student funding sources. 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. Our standard allowance estimation methodology is evaluated for propriety by corporate financial management on a periodic basis and modified as necessary. Changes to the design of our standard allowance estimation methodology, including our allowance percentage estimates, may impact our estimate of our allowance for doubtful accounts and our financial results.

Corporate financial management reviews the allowance estimate calculations completed by each of our campuses to monitor compliance with our allowance estimation methodology.

A one percentage point change in our allowance for doubtful accounts for continuing operations as a percentage of gross student receivables for continuing operations as of December 31, 2006, would have resulted in a change in net income from continuing operations of $0.5 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.

Contingencies

We accrue for costs associated with certain contingencies, including, but not limited to, settlement of legal proceedings and regulatory compliance matters, when such costs are probable and reasonably estimable. Liabilities established to provide for contingencies are adjusted as further information develops, circumstances change, or contingencies are resolved.

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) goodwill and indefinite-lived intangible assets are reviewed 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 9 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of goodwill impairment considerations and related charges we recognized during the year ended December 31, 2006.

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. To date, no such events or changes in circumstances have occurred. 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 are less than the carrying value of the related asset. The impairment loss would adjust the asset to its 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 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 assets and definite-lived intangible assets.

Discontinued Operations

We account for discontinued operations, including our 13 schools and campuses currently held for sale, in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). In accordance with SFAS 144, the net assets of assets held for sale are recorded on our consolidated balance sheet at estimated fair value, less costs to sell. The results of operations of discontinued operations are segregated from those of continuing operations and reported as discontinued operations in our consolidated statement of income. See Note 4 Discontinued Operations of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of our accounting for discontinued operations.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards 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.

Share-based Compensation Expense

On January 1, 2006, we adopted the provisions of SFAS 123R. SFAS 123R, which is a revision of SFAS 123, replaces our previous accounting for share-based awards under Opinion 25 for periods beginning in 2006. SFAS 123R requires that all share-based payments to employees and non-employee directors, including grants of stock options, shares of nonvested stock, and the compensatory elements of employee stock purchase plans, be recognized in the financial statements based on the estimated fair value of the equity or liability instruments issued.

We previously accounted for share-based compensation using the intrinsic value method defined in Opinion 25. Prior to January 1, 2006, no share-based compensation cost, other than insignificant costs associated with infrequent issuances of nonvested stock, was reflected in our consolidated statements of income. We adopted SFAS 123R using the modified prospective transition method. Under this method, share-based compensation cost recognized during 2006 includes (1) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on grant date fair value estimated in accordance with the original provisions of SFAS 123 and (2) share-based compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Under the modified prospective transition method, the provisions of SFAS 123R were not applied to periods prior to adoption, and, thus, prior period financial statements have not been restated.

In accordance with SFAS 123R, the fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. Our determination of the fair value of stock option awards is affected by our stock price on the date of grant as well as assumptions regarding a number of highly complex and subjective variables. The variables include, but are not limited to, the expected stock price volatility over the expected life of each stock option award and actual and projected employee stock option exercise behavior.

In addition, SFAS 123R requires companies to estimate forfeitures of share-based awards at the time of grant and revise such estimates in subsequent periods if actual forfeitures differ from original projections.

Certain of the shares of nonvested stock that we have granted to participants are subject to performance conditions that may affect the number of shares of nonvested stock that will ultimately vest at the end of the requisite service period. We refer to these awards as performance-vesting nonvested stock. Share-based compensation associated with performance-vesting nonvested stock awards is recognized only to the extent that we believe performance conditions attributable to such awards will ultimately be satisfied. Our estimate of the number of performance-vesting nonvested stock awards that will ultimately be awarded must be revised during each reporting period, if necessary. We must exercise considerable judgment to estimate the number of performance-vesting nonvested stock will ultimately be awarded based on the expected satisfaction of associated performance conditions.

See Note 16 Share-Based Compensation of the notes to our consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion of our share-based compensation plans, the nature of share-based awards issued under the plans, our adoption of SFAS 123R, and our accounting for share-based awards.

RESULTS OF CONTINUING OPERATIONS

Year Ended December 31, 2006, Compared to the Year Ended December 31, 2005

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 year ended December 31, 2006, compared to the year ended December 31, 2005 (dollars in thousands).

	For the Year Ended December 31,						% Change	
	2006	% of Total Revenue		2005	% of Total Revenue		2006 vs. 2005	
TOTAL REVENUE	$ 1,785,619			$ 1,828,498			-2.3	%
OPERATING EXPENSES								
Educational services and facilities								
Educational services and facilities expense	551,512	30.9	%	531,353	29.1	%	3.8	%
Share-based compensation expense	539	0.0	%		0.0	%		
Total educational services and facilities expense	552,051	30.9	%	531,353	29.1	%	3.9	%
General and administrative:								
Advertising and admissions expense	487,481	27.3	%	444,706	24.3	%	9.6	%
Administrative expense	352,601	19.7	%	334,443	18.3	%	5.4	%
Bad debt expense	55,759	3.1	%	73,911	4.0	%	-24.6	%
Share-based compensation expense	16,404	0.9	%		0.0	%		
Management fee								